# Agenda

## Meeting: Pension Fund Committee

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

## Date: Thursday 15 September 2016 at 10.00am

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### Business

1. **Minutes of the meeting held on 7 July 2016**

**(Pages 4 to 11)**

**2. Any Declarations of Interest**

**3. Public Questions or Statements**

Members of the public may ask questions or make statements at this meeting if they have given notice (including the text of the question/statement) to Ruth Gladstone of Democratic Services *(contact details at the foot of page 1 of the Agenda sheet)* by midday on Monday 12 September 2016. 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

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Fax: 01609 780447 or e-mail ruth.gladstone@northyorks.gov.uk Website: www.northyorks.gov.uk

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.

If you are exercising your right to speak at this meeting, but do not wish to be recorded, please inform the Chairman who will instruct those taking a recording to cease while you speak.

4. **Member and Employer Issues** – Report of the Treasurer
**(Pages 12 to 24)**

5. **Budget/Statistics** – Report of the Treasurer
**(Pages 25 to 27)**

6. **Annual Report 2015/16 -** Report of the Treasurer
**(Pages 28 to 151)**

7. **Pension Board –** Verbal update by the Chair of the Pension Board. (The draft Minutes from the meeting held on 14 July 2016 are attached for information.)
**(Pages 152 to 162)**

8. **Performance of the Fund's Portfolio for the Quarter ending 30 June 2016** – Report of the Treasurer
**(Pages 163 to 207)**

9. **LGPS Pooling Arrangements –** Report of the Treasurer
**(Pages 208 to 210)**

10. **Private Debt Manager Appointment -** Report of the Treasurer
**(Pages 211 to 213)**

11. **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:**

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

# PENSION FUND COMMITTEE

**1. Membership**

| **County Councillors (8)** | | | |
|---|---|---|---|
| | *Councillors Names* | | *Political Party* |
| **1** | BLACKIE, John | | NY Independent |
| **2** | BATEMAN. Bernard MBE | | Conservative |
| **3** | VACANCY | | UKIP |
| **4** | De COURCEY-BAYLEY, Margaret Ann | | Liberal Democrat |
| **5** | HARRISON-TOPHAM, Roger | (Vice-Chairman) | Conservative |
| **6** | MULLIGAN, Patrick | | Conservative |
| **7** | SWIERS, Helen | | Conservative |
| **8** | WEIGHELL, John OBE | (Chairman) | Conservative |

| **Members other than County Councillors (1 and 2) Voting (3) Non-voting** | | |
|---|---|---|
| **1** | STEWARD, Chris | City of York |
| **2** | CLARK, Jim | North Yorkshire District Councils |
| **3** | PORTLOCK, David | Chair of the Pension Board |
| **Total Membership – (10)** | | **Quorum – (3) County Councillors** |

| **Con** | **Lib Dem** | **NY Ind** | **Labour** | **Liberal** | **UKIP** | **Ind** | **Other Voting Members** |
|---|---|---|---|---|---|---|---|
| 5 | 1 | 1 | 0 | 0 | 1 | 0 | 3 |

**2. Substitute Members**

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

**1. Substitute Members**

| | | |
|---|---|---|
| **1** | MERCER, Suzie | City of York |
| **2** | PEACOCK, Yvonne | North Yorkshire District Councils |
| **3** | COWLING, Linda | North Yorkshire District Councils |

# North Yorkshire County Council

# Pension Fund Committee

Minutes of the meeting held on 7 July 2016 at County Hall, Northallerton commencing at 10.00 am.

**Present:-**

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

Councillor Jim Clark - Local Government North Yorkshire and York.

Councillor Susie Mercer - City of York Council (as substitute for Councillor Chris Steward).

David Portlock - Chair of the Pension Board.

Ben Drake – Pension Board Member and representing Unison.

Apologies - County Councillor Bernard Bateman MBE submitted his apologies.

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

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

**Resolved –**

That the press and public be excluded from the meeting during consideration of Minute 133 (in respect of Appendix 1), Minute 134 and Minute 135 because of the likely disclosure of exempt information as defined in paragraphs 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.

**128. Minutes**

**Resolved -**

That the Minutes of the meeting held on 19 May 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

Further to the issue raised under matters arising from those Minutes (Minute No. 118 Member and Employer Issues - Matters Arising) the Treasurer stated that the issue around the speed of processing certain ill health cases, and the determination of pension benefits, was being addressed and would be reported back to a subsequent meeting of the Pension Fund Committee.

**129. Declarations of Interest**

County Councillors 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.

**130. Public Questions or Statements**

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

**131. Statement of Final Accounts 2015/16**

Considered -

The report of the Treasurer requesting Members to approve the draft Statement of Final Accounts for the financial year 2015/16.

He noted that the draft Statement of Final Accounts for 2015/16 was attached to the report as an Appendix and that this fully complied with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom governing the preparation of the 2015/16 Financial Statements for Local Government Pension Scheme Funds. Any material amendments to the accounts arising from the external audit would be reported to the September Pension Fund Committee meeting.

The North Yorkshire Pension Fund Statement of Final Accounts would also be consolidated into the County Council's Statement of Accounts for approval by the Audit Committee and, once audited, these would be incorporated into the Pension Fund Annual Report which would be placed on the North Yorkshire Pension Fund website. The Annual Report would be submitted to Members at the September Pension Fund Committee meeting.

The following issues and points were raised:-

- Clarification was provided as to why teachers, Police and firefighters were not included within the North Yorkshire Pension Fund, although the back office functions were covered by the Fund.

- In terms of schools becoming academies it was noted that non-teachers would continue to be part of the North Yorkshire Pension Fund, and that academies are separate employers and their non-teaching staff would remain in the North Yorkshire Pension Fund.

- The Treasurer stated that he would obtain further details in relation to the cash holdings of the Fund in line with concerns raised by a Member that this amount would not be obtaining much interest at current levels.

- Details were provided in relation to the Yorkshire & Humber Equity Fund investment, in that it represented the residual value of a private equity investment made in in 2002.

**Resolved -**

That the draft Statement of Final Accounts 2015/16 be approved.

**132. Governance Arrangements**

Considered -

The report of the Treasurer seeking the Committee's approval of the Pension Fund Risk Register and highlighting that some documents would require approval in the September Pension Fund Committee meeting, with Members approval to the approach to the amendment of these documents being sought.

The Treasurer stated that the Regulations required that the final accounts, certain governance documents, and other specified information be included in the Annual Report. The Annual Report is audited in its entirety and its sections would be updated where necessary in advance of the audit. The completed Annual Report would be presented to the Pension Fund Committee on 15 September 2016 for recommendation for approval by Audit Committee which would meet on 29 September 2016.

The governance documents which form part of the Annual Report include:-

- Statement of Investment Principles.
- Governance Compliance Statement.
- Funding Strategy Statement.
- Communications Strategy Statement.

It was noted that due to the timing of the triennial valuation, and certain governance documents being replaced, approval would be required later than in previous years.

A description of each of the governance documents was provided within the report and a copy of the Risk Register (Appendix A - summary; Appendix B - detailed Risk Register) were appended to the reports. Details of the ranking of the risks were provided within the report.

Discussion of the report raised the following issues and points:-

- The report referred to the current governance arrangements for the Pension Fund which do not refer to pooling, and that pooling would be discussed later in the meeting. In relation to this a Member raised concerns that North Yorkshire pensioners may not be up to speed with the details of the pooling arrangements and, as the Communications Strategy formed part of the governance arrangements asked if this issue would be addressed within it. The Chairman noted that although pooling was of concern it would not change the terms and conditions of those receiving a pension from North Yorkshire Pension Fund, or for those paying into the Fund. The Member who raised the concerns acknowledged this issue, but emphasised the need to ensure that all who had an interest in the North Yorkshire Pension Fund were informed of developments for pooling and what that meant for the Fund. In response to further issues raised in relation to pooling, the Chairman stated that these would be addressed in the next item. The Treasurer emphasised that the Communications Strategy would be utilised to support activity aimed at informing stakeholders, along with updates in member newsletters.

- The Treasurer stated that, in respect of the anticipated regulations and their impact on the required governance documents, there was a process envisaged which required a meeting between officers and the Chairman and Vice-Chairman of the Pension Fund Committee, in advance of the September meeting. It would also be necessary, should Members agree, to delegate authority to officers to make any necessary minor changes to the documents, prior to them going to the September meeting as part of the Annual Report.

- This process was required as the Statement of Investment Principles was due to be replaced by the Investment Strategy Statement, with regulations expected any time. If the regulations were published in time, the delegation process described above would be utilised, otherwise the Statement of Investment Principles would remain in place.

- A Member asked whether the Statement of Investment Principles would be a significant document in terms of the pooling arrangements and asked about the implications of not having the new regulations in place. In response it was noted that both the Statement of Investment Principles and the Investment Strategy Statement were suitable starting points for describing NYPF's strategy to the Pool, to be supplemented by more detailed descriptions of investment requirements. It was emphasised that the change from the SIP to the ISS would have no impact on NYPF's position in pooling arrangements.

- Clarification was provided as to the differences between the Funding Strategy Statement and the Statement of Investment Principles. It was noted that the Funding Strategy Statement was developed through the triennial valuation, which is ongoing, for approval by the Pension Fund Committee in early 2017. A draft will be circulated to the Committee towards the end of 2016.

- The Chair of the Pension Board reported that he had recently attended a conference for Pension Board members. The Pensions Regulator had stated that, following the creation of "Pools", Pension Fund Committees would retain at least 90% of their current responsibilities - for example, setting investment strategy, governance, administration, record keeping, communication with scheme members and employers. The Regulator was very clear that "Pooling" is about the implementation of a scheme's investment strategy, not the operation and management of individual schemes.

- A Member raised concerns regarding the pooling arrangements and the Pension Fund Committee not being able to choose its own Fund Managers in line with the Investment Strategy. He considered the pooling arrangements would diminish the control that the Pension Fund Committee currently had over this aspect of investments. He also suggested that not having the ability to speak directly to those Fund Managers would also dilute the knowledge that the Committee had on investments. Other Members of the Committee echoed those concerns.

  The issues raised were acknowledged and the concerns accepted, and it was emphasised that PFC knowledge of investments and access to industry specialists including investment managers would be taken account of in the ongoing consideration of how pooling arrangements would operate in practice.

  Members were requested to appraise the Risk Register which was provided as Appendices to the report and the following issues and points were raised:-

- A Member asked whether the risks associated with the exit from the EU were taken account of in the Risk Register. In response the Treasurer indicated that the impact on the Investment Strategy in terms of market fluctuations, currency fluctuations, and other economic issues was already described, without referring to specific events. A Member emphasised that it was not yet known what these risks would be until details of the break-away from the EU were much clearer. A Member noted that there were other issues such as employment rights, the employment of European nationals, etc. that could also have an impact on the Fund and that these should be taken account of when assessing the risks.

- A Member noted that there was no fall-back position included in the arrangements for pooling risk and asked why this was the case. In response it was stated that, as things stood, there was no alternative but to enter into pooling arrangements and, therefore, no fall-back position was currently available. Possible alternatives that could be considered would include moving pools or making representations to Government, but those issues would only be reflected if they were appropriate and feasible. In respect of this it was asked whether changes within Government or the Treasury could result in a change in requirements. In response it was emphasised that there was always a possibility that this could be the case, however, at this moment that appeared remote. Members considered it appropriate that the matter continued to be discussed with appropriate Government officials to highlight the concerns raised in relation to the development of pooling arrangements.

- In terms of the Risk Register, going forward, Members highlighted issues that may not be under the control of the Pension Fund, such as the implications of leaving the EU and the lack of contact with Fund Managers because of pooling arrangements and the additional layers of governance between the PFC and the investment managers. It was considered that these were risks that would be difficult to maintain the current levels of control over. In response it was stated that the Risk Register would be updated as pooling arrangements progressed.

- It was emphasised that for the purposes of this meeting the Risk Register that was before Members, in terms of the current risks to the Pension Fund, was under consideration.

**Resolved -**

(i) That the Risk Register, as detailed in Appendices A and B to the report, be approved.

(ii) That agreement be given to the approach to approving governance documents at the September meeting as set out in paragraph 3.2 of the report.

(iii) That authority be given to the delegation of authority, as outlined in paragraph 3.3 of the report, to make minor changes to governance documents where necessary.

**133. Pooling Arrangements**

**(Appendix 1 to the report contained 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 and the Minutes reflect the confidential nature of that Appendix.)**

Considered -

The report of the Treasurer updating Members on progress towards the Government's announced intention to pool the assets of LGPS Funds and to seek approval from Members for the Council to be signatory to the Border to Coast Pensions Partnership (BCPP) proposal aimed at addressing the Government's criteria for pooling.

The report provided the background to the establishment of the pool including the submission of the initial proposal and the deadline for the second more detailed proposal, which was 15 July 2016. The participants within the pool were highlighted, as were the expectations of the content for the detailed proposals, set by the Government.

Details of meetings held on 15 April, 6 June and 24 June 2016 involving elected member representatives from the BCPP were highlighted and it was noted that the Chairman and Vice-Chairman of the Pension Fund Committee had represented the Fund at those meetings. Officers had also met with representatives of HM Treasury, DCLG, GAD and the Cabinet Office to discuss the main issues described in the detailed proposal.

The draft proposal had been circulated to the Pension Fund Committee on 22 June 2016 and to Members of the Pension Board. The latest version of the document, which reflected the feedback of Chairs of Pension Fund Committees, was attached as Appendix 1 to the report.

The draft proposal included the Memorandum of Understanding which was approved by the Pension Fund Committee in May 2016.

Although there were 13 BCPP Funds, the Member Steering Group would comprise of 12 Funds, with the South Yorkshire Passenger Transport Fund having decided to be represented through the South Yorkshire Pension Fund.

To meet the 15 July 2016 Government deadline for submission the proposal had to be approved by all 13 Funds by the date. With regards to that Members were asked to approve the document, and comments that Members had on the proposal would inform subsequent developments of the pooling arrangements which would be worked up by officers and approved by the Member Steering Group.

An assessment of the additional costs and potential savings that pooling arrangements would bring to North Yorkshire Pension Fund was provided at Appendix 2 to the report. It was noted that this was based on the more prudent of two sets of assumptions, described as the "worst case" which had been applied to all BCPP Funds.

Based on those assumptions the North Yorkshire Pension Fund would see a net reduction in costs after six years from the expected time of commencement of pooling arrangements in April 2018.

Further to the initial report the following issues and points were raised:-

♦ The Vice-Chairman had circulated his comments, in respect of the meetings of the Steering Committee that he had attended, to Members of the Pension Fund Committee, which were welcomed. He had raised concerns in respect of the diminished opportunity for the Pension Fund Committee's direct contact with Fund Managers and how the Investment Strategy, particular of the North Yorkshire Pension Fund, would be implemented through the pooling arrangements. He had also raised concerns regarding the effect of the arrangements on the solvency of the Fund in terms of the initial costs to establish the pool.

♦ The Chairman noted that there were examples of infrastructure investments undertaken by Pension Funds which had been beneficial to them in terms of returns and highlighted how economies of scale through pooling could potentially work for NYPF.

♦ A Member noted how collaboration, rather than pooling, could have been a potential way forward.

♦ A Member considered that the governance structure required for pooling made the arrangements far more complicated than at present, adding in the further layers of the Joint Committee and the Pool entity, and had some concerns regarding how those various layers would interact. Other Members also highlighted their concerns regarding the structure and the link to the Pension Fund Committee. In response it was stated that the PFC would be able to input into the development of the arrangements through the Chairman who would represent NYPF on the Joint Committee.

♦ A Member raised concerns that the Pension Fund Committee had been left with no option other than to enter into pooling arrangements and that the structure that was being developed to undertake the process appeared to be much more costly than what was in place now, with few cost benefits in the short term. He did not believe that this represented a suitable approach within local government. He asked whether discussions with other Members of the pool had outlined any concerns in respect of the arrangements being put in place. He acknowledged the difficult position that Pension Fund Officers had been put in in terms of the short deadlines imposed by Government for the implementation of these arrangements. He suggested that concerns should continue to be outlined to Government, whilst continuing to participate in the process in view of the issues he outlined. In response the Chairman indicated that although there would be a new structure in place, part of that structure related to existing fund managers but that he too had concerns about creating additional tiers of governance.

- A Member raised concerns that the proposed pooling arrangements provided for little flexibility and considered that if they were to go wrong there would be a great deal of difficulty in withdrawing from the pool. It was noted that the draft arrangements for the management of the pool were set out in the Appendix to the report and provided some details of how issues, going forward, would potentially be managed.

- Concern was raised regarding the appointment of a Chief Executive for the pool with issues around the power afforded to that Chief Executive and the cost of employment. It was suggested that, with pools seeking at the same time to recruit an appropriate Chief Executive, it was likely to create unhelpful competition.

- It was noted that, at this stage, it had been difficult to gauge the concern of other Members representing BCPP funds around the issues raised by due to the limited number of meetings so far and their formal nature. However, it was expected that there would be opportunities to discuss these issues in due course.

The Chairman of the Pension Board asked when the governance arrangements would be place to enable the Pension Board to consider them. In response it was stated that it was expected that these would emerge between September and December 2016 as officers continued to work on them.

- A Member expressed concern regarding the process of the development of the pool, with Members agreeing to be part of a pool with no formal governance arrangements in place nor senior appointments having been made. He also considered that the accountability of the Pension Fund Committee would be diluted through these arrangements. A number of Members echoed those concerns. It was also suggested that the exit of Britain from the European Union had created instability in the markets and the economic stability of the country, in the short term, further heightened those concerns. In response the concerns expressed were acknowledged and it was emphasised that, going forward, the issues highlighted by Members would be discussed further within the pool and by Pension Fund Committees to ensure that, where possible, these were fully discussed and addressed. It was also noted that savings for the BCPP Funds were likely to accrue from the economies of scale, over time.

**Resolved -**

That approval be given to the BCPP proposal for asset pooling in the LGPS.

County Councillor John Blackie asked for his vote against the recommendation to be recorded.

**134. Independent Adviser Procurement**

The Treasurer provided an update in relation to the procurement process for the appointment of an Independent Adviser to the North Yorkshire Pension Fund.

It was noted that the current Independent Adviser had given notice that she would not wish to be considered in the forthcoming procurement exercise.

The views of Members were sought in relation to whether it was appropriate to continue with the procurement process in relation to the Independent Adviser or whether to continue with the Investment Consultant alone providing external advice to the Fund.

Members discussed the pros and cons of having the two sources of external advice, and considered that the arrangement with the Independent Adviser and the Investment Consultant providing advice was preferable. However, Members noted that the procurement process would be used to determine if a suitable Independent Adviser could be found, and if not, no appointment need be made.

**Resolved -**

That the procurement process for an Independent Adviser to the North Yorkshire Pension Fund continue as previously agreed.

**135. Threadneedle Investment**

The Treasurer provided a verbal report in relation to an investment opportunity that had arisen with Threadneedle, the amount that had been invested and how the funding for that investment had been obtained.

**Resolved -**

That the details provided be noted.

**136. Other Business**

**Private Debt Manager Search**

The Treasurer provided details of the ongoing process of appointing a Private Debt Manager. Interviews would be held on Friday 15 July 2016.

**Resolved -**

That this be noted.

The meeting concluded at 12.20 pm

SL/JR

**NORTH YORKSHIRE COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

**15 SEPTEMBER 2016**

# MEMBER AND EMPLOYER ISSUES

**Report of the Treasurer**

## 1.0 Purpose of the Report

1.1 To provide Members with information relating to membership movements, performance of benefits administration as well as related events and activity over the year to date as follows:

(a) Admission Agreements and Academies (see section 2)

(b) Membership Analysis (see section 3)

(c) Administration Performance (see section 4)

(d) Member Training (see section 5)

(h) Meetings Timetable (see section 6)

## 2.0 Admission Agreements and New Academies

2.1 There are no new Admission Agreements or new Academies in the quarter ending 30 June 2016.

## 3.0 Membership Analysis

3.1 The number of active, deferred and pensioner members in the Fund at the last quarter end and the previous two financial year ends were as follows:

| Membership Category | *At 31/03/15* | +/- Change (%) | *At 31/03/16* | +/- Change (%) | *At 30/06/16* |
|---|---|---|---|---|---|
| **Actives** | 34,990 | -3.4 | 33,796 | -5.7% | 31,873 |
| **Deferred** | 30,591 | +3.7 | 31,718 | +1.1% | 32,065 |
| **Pensioners*** | 18,451 | +5.2 | 19,414 | +1.7% | 19,743 |
| **Total** | **84,032** | | **84,928** | | **83,681** |

*Figures include spouses' and dependants' pensions

3.2 The breakdown of retirements across the Fund in Quarter 1 of 2016/17 is at **Appendix 1.**

**4.0 Performance of the Pensions Administration Team**

4.1 The performance figures for the first quarter of 2016/17 are as follows:

| Performance Indicator | Target in Q1 | Achieved |
|---|---|---|
| **Measured work achieved within target** | 98% | 95% |
| **Customers surveyed ranking service good or excellent** | 94% | 92% |
| **Employer satisfaction with the service ranked good or excellent** | 90% | 100% |
| **Reduce reliance on customer helpline. Phone queries reduced as a proportion of customer contacts to <29%** | 29% | 36% |
| **Increase numbers of registered self-service users by 700 per quarter** | 700 | 795 (total increased from 11,672 to 12,467) |
| **Total sickness absence in Q3** | 1.5 days per employee | 0.13 days per employee |

4.2 There has been a drop in the overall performance due to a fall in the figures for employee and employer retirement estimates. The delays for most of the cases involved verifying pay figures and resolving software errors by undertaking manual calculations. There has been a significant increase in the number of employer estimate requests (+67%) for this quarter compared with the same quarter last year which has impacted on the Team's ability to complete the work in the normal time scale.

4.3 As was the case in the same period last year, telephone queries increased due to the exercise to update NYCC pensions records for over 1,000 employees who chose to pay additional contributions to replace the lost pension incurred by the two days compulsory unpaid leave over the Christmas week. This leave is classed as 'authorised absence' under the LGPS. Each employee was contacted by email to confirm that the appropriate change had been made to their pension record. This exercise resulted in a number of calls from members wishing to clarify a variety of points.

4.4 The target for this year has been changed to an increase per quarter of 700 new registered users rather than focussing on the overall total. There has been an increase of 795 new users in Quarter 1.

4.5 A consultation has taken place regarding the appropriate insolvency process for further education and sixth form colleges. The consultation document can be viewed at: https://www.gov.uk/government/consultations/developing-an-insolvency-regime-for-the-further-education-and-sixth-form-sector

The response from the North Yorkshire Pension Fund is shown at **Appendix 2.** The main thrust of the response highlights the need to ensure pension funds are involved in timely discussions with colleges. This would reduce the risk that a deficit arising from an exiting college may fall to the other employers in the fund. It is also requested that the Government act as the 'ultimate guarantor' to colleges. These are technical points and the response was therefore submitted by officers without the need to involve Members.

4.6 A further consultation exercise has taken place in respect of two areas. The first is the application of the 'Fair Deal' principles to the LGPS which includes the proposed rules for relevant employers giving continued access to the LGPS on the transfer of services. The second relates to a number of amendments to the main LGPS regulations to introduce several administration changes and to amend a number of drafting errors. The consultation document can be viewed at:
https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

The response from the North Yorkshire Pension Fund is shown at **Appendix 3** which requests that appropriate employers are brought within the scope of the Fair Deal guidance and that pragmatic solutions are used. The Fund is supportive of the majority of the technical changes to be made except in one instance where an increase in administration would have no perceived benefit to members (extending the application of the 'underpin' rule). The response therefore addressed a number of technical points and was therefore submitted by officers without the need to involve Members.

## 5.0 Member Training

5.1 The Member Training Record showing the training undertaken over the year to September 2016 is attached as **Appendix 4.**

5.2 Upcoming courses, seminars and conferences available to Members are set out in the schedule attached as **Appendix 5.** Please contact Gary Bowden (01609 532520 or email gary.bowden@northyorks.gov.uk) for further information or to reserve a place on an event.

## 6.0 Meetings Timetable

6.1 The latest timetable for forthcoming meetings of the Committee and Investment Manager meetings is attached as **Appendix 6**.

## 7.0 Recommendations

7.1 Members are asked to note the contents of this report.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

6 September 2016

**APPENDIX 1**

## NORTH YORKSHIRE PENSION FUND
## Cumulative Total of Retirements from 1 April 2016 to 30 June 2016

| *Employer* | *Normal* | *Ill-Health* | | *Efficiency/ Redundancy/ Employers Consent* | *Total* |
|---|---|---|---|---|---|
| | | *Actuarial Assumption≠* | *Actual* | | |
| 007 - Scarborough BC | - | 2 | 2 | 3 | 5 |
| 009 - Hambleton DC | 1 | 1 | - | 1 | 2 |
| 010 - Ryedale DC | 1 | 1 | - | 2 | 3 |
| 011 - Harrogate BC | 10 | 2 | - | 3 | 13 |
| 012 - Richmondshire DC | 2 | 1 | - | - | 2 |
| 013 - Selby DC | - | 1 | 1 | 3 | 4 |
| 014 - Craven DC | - | 1 | - | - | 1 |
| 020 - York | 14 | 7 | 2 | 2 | 18 |
| 025 - NYCC | 58 | 22 | 1 | 3 | 62 |
| 055 - Uni of Hull | 1 | - | - | - | 1 |
| 057 - Yorkshire Housing | 1 | - | - | - | 1 |
| 061 - Askham Bryan College | 1 | 1 | - | - | 1 |
| 068 - Scar 6th Form College | 1 | - | - | - | 1 |
| 074 - York College | 1 | - | - | - | 1 |
| 080 - Yorkshire Coast Homes | 1 | - | - | - | 1 |
| 104 - Norton College | 2 | - | - | - | 2 |
| 120 - Churchill Security | 1 | - | - | - | 1 |
| 128 - NY Police and Crime C | 2 | - | - | - | 2 |
| 129 - NY Chief Constable | 6 | 1 | 1 | 11 | 18 |
| 139 - Roseberry Academy | 1 | - | - | - | 1 |
| 156 - Yorkshire Causeway ST | 1 | - | - | - | 1 |
| 157 - South Bank MAT | 2 | - | - | - | 2 |
| Others | - | 11 | - | - | - |
| TOTALS | 107 | 51 | 7 | 28 | 142 |
| | (75%) | | (5%) | (20%) | |

| Quarter by quarter analysis | | | | | |
|---|---|---|---|---|---|
| Quarter 1 | 107 | | 7 | 28 | 142 |
| Quarter 2 | - | | - | - | - |
| Quarter 3 | - | | - | - | - |
| Quarter 4 | - | | - | - | - |
| | 107 | N/A | 7 | 28 | 142 |

≠ **Estimated** actuarial assumptions re Ill-health numbers for the whole year - 2016/2017

**Department for Business Innovation and Skills - Consultation on Developing an Insolvency Regime for the Sector - Further Education and Sixth Form Colleges**

**Response from the North Yorkshire Pension Fund**

The North Yorkshire Pension Fund has the following observations in relation to this consultation exercise relating to the membership of college staff in the Local Government Pension Scheme (LGPS):

- The nature of the proposed method of making payments to unsecured creditors would result in it being highly unlikely that the full unfunded liabilities could be recovered by a LGPS pension fund on the wind-up of a college. The size of the potential unfunded liabilities on the exit of a college from the LGPS would mean that this method is inappropriate for resolving the essential issue of ensuring that all pension liabilities for the LGPS members of the college (past and present) are sufficiently funded going forward.

- Failure to make full payment of the sum due to cover unfunded liabilities to a LGPS pension fund results in the other LGPS employers within the pension fund picking up these additional liabilities. This has a direct impact on public sector and other bodies and is an inappropriate use of public monies in the local area for that pension fund as well as being an unreasonable and unfair burden on the remaining LGPS employers. In respect of the local authority employers in LGPS pension funds the risk ultimately falls on the taxpayer.

- Colleges are currently classed as scheduled bodies under the LGPS and, as such, do not have bond or guarantor provisions in place in relation to their participation in the LGPS. It could be argued that the 'strength of covenant' that is currently attached to colleges should be urgently reviewed and action be taken by LGPS pension funds to mitigate risk and impose a higher employer contribution rate, shorten deficit recovery periods, insist on a guarantor being provided or for a bond to be put in place, or for pension funds to look to the college to offer another form of security.

- Colleges currently must make the LGPS available to relevant employees. It may be thought appropriate for the status of colleges under the LGPS to be reviewed and changed from 'scheduled body' to another category where participation in the LGPS is not required for all relevant staff. However this option has its own risks if colleges decide to no longer offer the LGPS and this may only add to the problem of how LGPS benefits can be sufficiently funded within a very short timeframe without impacting on other LGPS employers within a pension fund.

- For academy conversions central government has agreed to act as the 'ultimate guarantor' should academies or academy trusts fail. If there is sufficient confidence in plans to improve the financial strength of colleges would it not be appropriate for central government to also act as the 'ultimate guarantor' for colleges in relation to LGPS liabilities? This may mitigate some of the issues surrounding colleges being seen by pension funds as LGPS employers of lower covenant and the resulting need for colleges to contribute more in the short-term to the LGPS and/or to provide a form of security.

Given the method of funding under the LGPS it is essential that LGPS pension funds are given a continued opportunity to comment on the funding arrangements of colleges.  A mechanism would also be welcomed for pension funds to be able to monitor the financial strength of colleges and to track when mergers are being considered.

The continued involvement of LGPS pension funds in discussions is not only important to protect the pension funds and their participating LGPS employers (and the taxpayer) but to ensure that colleges are not inadvertently faced with increasing pension costs due to a disproportionate perception of increased risk.

**North Yorkshire Pension Fund**
**4 August 2016**

Contact:
Anna Binks
Pensions Administration Team Manager
Telephone: 01609 535879
Email: anna.binks@northyorks.gov.uk

**Department for Communities and Local Government – Consultation: Local Government Pension Scheme Regulations**

**Response from the North Yorkshire Pension Fund**

The North Yorkshire Pension Fund (NYPF) has the following observations in relation to this consultation exercise relating to the Fair Deal proposals and the changes to the 2013 Local Government Pension Scheme (LGPS) Regulations and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014:

- The NYPF is supportive of the principles to allow LGPS employees in certain scenarios to remain in the LGPS and for these provisions to be contained in the 2013 Local Government Pension Scheme Regulations. However safeguards need to be in place to require potential Scheme employers to comply with the policies of local authority pension funds when entering into admission agreements. This is essential to protect the other participating Scheme employers so they are not at risk of cross-subsidising another employer's LGPS arrangements where admission bodies are unable to fulfil their obligations (to fully meet pension liabilities).

- Pragmatic arrangements have been put in place by the NYPF to deal with small admission agreements involving a very small number of staff, particularly in schools. This involves a pass-through arrangement to give certainty of costs but is dependent upon an organisation such as a transferring local authority acting as guarantor. It has been possible to reduce actuarial and legal costs and to allow a wider range of private sector companies to bid for small contracts due to the lower set-up costs for admission agreements and certainly of pension costs for the life of the contract. If this method is adopted it will be important for academies to be educated on their potential role as guarantor to such arrangements, in place of the local authority, both for new outsourcings or existing contracts when a school converts to academy status.

- Whilst it is commendable that protection is given to LGPS members to have continued access to the LGPS it would be unfortunate if this was extended too far, to inadvertently cover organisations which would not ordinarily offer LGPS access automatically to all staff. Where there is currently the choice for an employer to offer membership of the LGPS, as is the case for community admission bodies and designating bodies, the changes to the Regulations should be carefully drafted, to not impose any additional requirements to automatically offer the LGPS (where this requirement does not currently apply).

- It would seem sensible to have consistent arrangements for re-tenders as well as new outsourcing arrangements. This could be done by applying the Fair Deal provisions to such arrangements to protect employees who were originally transferred out from a public sector employer and continue to work on delivering a public sector service. However if the pension protection was provided by a broadly comparable pension scheme, the NYPF would not object to the continued option for a broadly comparable scheme to be used should the new contractor have a suitable scheme. It does seem sensible to exclude higher and further education institutions and Police and Crime Commissioners from the Fair Deal provisions but the NYPF would be supportive of these organisations being able to adopt the principles on a voluntary basis should they wish to do so and therefore the LGPS Regulations should be drafted to permit admission agreements to be entered into with these organisations.

- The NYPF is supportive of the use of the terms ‘protected transferee employer’ and ‘protected transferee’ provided that the terms are clearly defined and the possible scenarios are clarified, such as the one described in Chapter 2, paragraph 9 of the consultation document.

- The suggestion to replace the need to inform the Secretary of State about new admission bodies with a published list of admission bodies maintained by the administering authority is acceptable.

- The NYPF is supportive of the amendments in draft regulations 6 and 7 which achieve clarification of the original intention of the Regulations relating to cancelling 50/50 membership of the scheme and the payment of contributions due to authorised absences.

- The NYPF is supportive of the introduction in draft regulation 8 and 9 of greater flexibility in the use of Additional Voluntary Contributions (AVCs) to bring the LGPS in line with Freedom and Choice principles in relation to AVC payments. It is agreed that the change in regulation 13 is made to ensure that all lump sums are taken into account for assessing the relevant limit.

- Although the calculation of Assumed Pensionable Pay is an issue for employing authorities, the NYPF is supportive of introducing clarity, shown in draft regulation 10, which will provide a fairer method for calculating the ill health and death benefits under the Scheme.

- The NYPF is supportive of the suggested move, outlined in draft regulation 11, to members having the option to aggregate benefits within 12 month of becoming an active member (rather than automatic aggregation and members being able to opt to keep benefits separate).

- The NYPF is supportive of the amendment outlined in draft regulation 12 to allow only the benefits from an active pension record to be taken on redundancy or efficiency grounds (with no requirement for deferred benefits to also be taken automatically).

- The NYPF is supportive of the change in the calculation of partners’ and children’s pensions outlined in draft regulation 14.

- The increased flexibility of dealing with liabilities outlined in draft regulation 15 is supported. However we would request that the actions are defined as options rather than mandatory requirements and that there are protections included in the provisions so that future, additional claims can be avoided (where an action has already been completed at a point in time e.g. an exit credit is paid to an employer).

- The amendment in draft regulation 16 is supported to give clarity as to the full range of scenarios where employer payments should be made to a pension fund.

- The amendments, to give clarity to the calculation of transfer values, in draft regulations 17, 18, 19, 20 and 22 are supported provided that the drafting includes full reference to the specific guidance which applies to the LGPS (which supplements the Club Memorandum).

- The amendments suggested in draft regulation 21 relating to admission agreements are supported.

- The change proposed in draft regulation 24 to allow deferred members with pre 1 April 2014 membership to access benefits between ages 55 and 60 are supported and we would agree with the LGA interpretation that there are precedents in relation to revoked legislation which would allow changes to be made for those with deferred benefits under earlier revoked regulations to also have access to benefits between those ages.

- The NYPF does **not** support the widening of categories of member to whom 'the underpin' applies, suggested in draft regulation 25, due to the administrative complexities this would pose and the extremely low number of members that the underpin applies to under the current rules. The CARE scheme has proven to be more generous for the vast majority of LGPS members.

- The NYPF is supportive of the change in draft regulation 26 regarding the election and payment of interfund adjustments.

- The clarifying amendments in draft regulation 27 regarding refunds of contributions are supported.

- The NYPF is supportive of flexibilities applying to the use of AVCs irrespective of when the AVCs were built up, as outlined in draft regulation 28.

- The NYPF is supportive of the proposed change in draft regulation 29 but the amended regulations should require that each employing authority publishes a written policy in relation to this discretion.

- The NYPF is supportive of the requirement outlined in draft regulation 30 in relation to the publishing of a list of admission agreements.

The proposals to amend the 2013 LGPS Regulations will result in the need to update actuarial guidance. We would agree with the LGA's request that any updated guidance is issued at the same time that any amending regulations are made and laid and that suitable guidance detailing the implementation requirements is also available including transitional arrangements.

**North Yorkshire Pension Fund**
**19 August 2016**

Contact:
Anna Binks
Pensions Administration Team Manager
Telephone: 01609 535879
Email: anna.binks@northyorks.gov.uk

| Date | Title or Nature of Course | Bateman B | Blackie J | De Courcey-Bailey M | Harrison-Topham R | Mulligan P | Swiers H | Weighell J | Clark J | Steward C |
|---|---|---|---|---|---|---|---|---|---|---|
| 9 July 2015 | NYCC Fixed Income Review II | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| 18 Sept 2015 | NYCC Investment Manager Meeting | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| 14-16 Oct 2015 | NAPF Investment Conference | ✓ | | | | ✓ | ✓ | ✓ | | |
| 17 Nov 2015 | LGA Trustee Fundamentals | | | | | | | | | |
| 26 Nov 2015 | NYCC Investment Manager Meeting | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 27 Nov 2015 | NYCC Investment Manager Meeting | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 02-04 Dec 2015 | LAPFF Annual Conference | | ✓ | | | | | | | |
| 26 Feb 2016 | NYCC Investment Manager Meeting | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 16-18 May 2016 | NAPF Investment Conference | ✓ | | | | | | | ✓ | |

**APPENDIX 5**

## PENSION FUND COMMITTEE TIMETABLE FOR MEETINGS IN 2016 AND 2017

| Meeting Date | Time & Venue | Event | Fund Managers |
|---|---|---|---|
| 15 September 2016 | 10am, The Brierley Room | Pension Fund Committee | |
| 16 September 2016 | 10am CH, Room TBC | Investment Manager Meetings | L & G and Threadneedle |
| 24 November 2016 | 10am, TBC | Pension Fund Committee | 1 Manager TBC |
| 25 November 2016 | 10am, TBC | Investment Manager Meetings | 2 Managers TBC |
| 23 February 2017 | 10am, TBC | Pension Fund Committee | 1 Manager TBC |
| 24 February 2017 | 10am, TBC | Investment Manager Meetings | 2 Managers TBC |
| 25 May 2017 | 10am, TBC | Pension Fund Committee | 1 Manager TBC |
| 26 May 2017 | 10am, TBC | Investment Manager Meetings | 2 Managers TBC |
| 06 July 2016 | 10am, TBC | Pension Fund Committee | 1 Manager TBC |
| 07 July 2016 | 10am, TBC | Pension Fund Committee | 1 Manager TBC |

**APPENDIX 6**

## UPCOMING TRAINING AVAILABLE TO MEMBERS

| *Provider* | *Course / Conference Title* | *Date(s)* | *Location* | *Themes / Subjects Covered* |
|---|---|---|---|---|
| European PF Investment Forum | Pension Trustees Circle Seminar | 25pm-26 September | York | Legal Update & Key Issues for Pension Funds |
| LGPIF | Investment Forum | 11-13 October 2016 | London | Overview of Government and Regulator views on LGPS reform; Investment Strategy and Risk Management. |
| NAPF | Annual Conference and Exhibition | 19-21 October 2016 | Liverpool | Comprehensive range of investment-related topics. |
| Fidelity International | UK Institutional Conference | 2 November | London | Investment challenges for institutional investors |
| CIPFA | Annual Pensions Conference | 9 November 2016 | London | **Future Direction of the LGPS.** Asset Pooling and consultation on the Scheme Investment Regulations. |
| LAPFF | Annual Conference | 7-9 December 2016 | TBA | Agenda not yet available. |
| LGC | Investment Seminar | 2-3 March 2017 | Carden Park Cheshire | Government's Efficiency Challenge and Other Emerging Issues. Strategic Asset Allocation. Governance and Accountability. |

ITEM 5

**NORTH YORKSHIRE COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

**15 SEPTEMBER 2016**

# BUDGET / STATISTICS

**Report of the Treasurer**

1.0 **PURPOSE OF THE REPORT**

1.1 To report on the following:

(a) the expenditure/income position to date for 2016/17 (see section **2**)

(b) the cash deployment of the Fund (see section **3**)

## 2.0 2016/17 FORECAST

2.1 The Cash surplus for the quarter to 30 June 2016 (£14.4m) was higher than forecast (£13.2m), by £1.2m.

2.2 Pensions Payroll Expenditure of £18.6m and Retirement Grant payments of £7.8m were lower than forecast by £0.35m.

2.3 Contributions Income of £40.8m represents a £1.2m positive variance to budget.

2.4 The profile for contributions income has been adjusted for the pre-payment of deficit contributions. 7 employers agreed with the Fund to pay their 2016/17 deficit contributions as a single payment in April 2016. To remind Members, this arrangement means that funds are invested for longer and in return employers' deficit contribution requirements for 2016/17 are net of a 2% discount. This has resulted in an additional £16.1m of employer contribution receipts during the 3 months to June 2016.

2.5 Transfer Income for the period was £0.9m less than forecast at £0.9m, while Transfer Expenditure was £0.5m less than budget at £0.5m. Short term variances are to be expected. The forecasts for the year remain unchanged.

## 3.0 CASH DEPLOYMENT IN 2016-17

3.1 The cash generated in the year by the annual surplus, together with the opening balance has been utilised in 2016/17 as follows:

| | £m | |
|---|---|---|
| Cash Balance Brought Forward from 2015/16 | 3.8 | |
| Surplus to 30 June 2016 **(as per Appendix 1)** | 14.4 | |
| **Cash Available as at 30 June 2016** | **18.2** | **(a)** |
| **Rebalancing** | | |
| May 2016 (transfer to Threadneedle) | -10.0 | |
| June 2016 (transfer to Threadneedle) | -30.0 | |
| June 2016 (transfer to Threadneedle) | -25.0 | |
| June 2016 (transfer from Standard Life) | 25.0 | |
| **Total Rebalancing** | **-40.0** | **(b)** |
| **Accruals for June 2016** | **7.9** | **(c)** |
| **Available for Rebalancing of the Fund** | **-13.9** | **(d) = (a+b+c)** |

3.2 At the end of June 2016 the Fund held a negative cash balance as a result of an opportunity to add to the property investment with Threadneedle in the quarter. During the September quarter this will need to be addressed through a disinvestment from another manager of the Fund. Officers will discuss the most suitable approach with the Investment Consultant. Further details can be found in Section 7 of the Performance of the Fund report.

## 4.0 RECOMMENDATIONS

4.1 Members to note the contents of the report.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

6 September 2016

**North Yorkshire Pension Fund Income and Expenditure as at 30 June 2016**

# Appendix 1

| | | Budget 2016/17 £000 (i) | Profiled Budget to 30 June £000 (ii) | Actual Income / Expenditure to 30 June £000 (iii) | Variance ie (iii-ii) £000 (iv) | Forecast 2016/17 £000 (v) |
|---|---|---|---|---|---|---|
| **EXPENDITURE** | | | | | | |
| **Benefits** | | | | | | |
| Pensions | | 75,000 | 18,750 | 18,600 | -150 | 75,000 |
| Lump Sums (including refunds) | | 27,000 | 8,000 | 7,800 | -200 | 27,000 |
| **sub total** | **(a)** | **102,000** | **26,750** | **26,400** | **-350** | **102,000** |
| **Admin Expenses** | | | | | | |
| Finance and Central Services | | 1,100 | 275 | 275 | 0 | 1,100 |
| Other Services | | 250 | 30 | 14 | -16 | 250 |
| Other Admin Expenses | | 200 | 20 | 13 | -7 | 200 |
| **sub total** | **(b)** | **1,550** | **325** | **302** | **-23** | **1,550** |
| **Investment Expenses** | | | | | | |
| Investment Management Fees (Base) | | 3,400 | 850 | 900 | 50 | 3,400 |
| Performance Related | | 4,500 | 500 | 500 | 0 | 4,500 |
| Custodian Fees | | 150 | 38 | 30 | -8 | 150 |
| Other Investment Expenses | | 260 | 65 | 67 | 2 | 260 |
| **sub total** | **(c)** | **8,310** | **1,453** | **1,497** | **45** | **8,310** |
| **Total Expenditure** | **(d)** | **111,860** | **28,528** | **28,199** | **-329** | **111,860** |
| **INCOME** | | | | | | |
| **Contributions** | | | | | | |
| Employer and Employee Contributions | | 108,000 | 39,600 | 40,800 | 1,200 | 108,000 |
| Early Retirement Costs Recharged | | 2,500 | 1,060 | 1,050 | -10 | 2,500 |
| **sub total** | **(e)** | **110,500** | **40,660** | **41,850** | **1,190** | **110,500** |
| **Transfers** | | | | | | |
| Transfers IN (per individuals) | | 7,000 | 1,750 | 900 | -850 | 7,000 |
| Transfers OUT (per individuals) | | -4,000 | -1,000 | -490 | 510 | -4,000 |
| **sub total** | **(f)** | **3,000** | **750** | **410** | **-340** | **3,000** |
| **Other Income** | | | | | | |
| Other Investment Income (Hermes) | | 1,300 | 325 | 306 | -19 | 1,300 |
| **sub total** | **(g)** | **1,300** | **325** | **306** | **-19** | **1,300** |
| **Total Income** | **(h)** | **114,800** | **41,735** | **42,566** | **831** | **114,800** |
| **Net Surplus** | **(i)** | **2,940** | **13,207** | **14,367** | **1,160** | **2,940** |

**NORTH YORKSHIRE COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

**15 SEPTEMBER 2016**

**ANNUAL REPORT 2015/16**

**Report of the Treasurer**

1.0 **PURPOSE OF REPORT**

1.1 To receive the Annual Report (ex-appendices) for the financial year 2015/16.

1.2 To approve the Statement of Investment Principles and the Governance Compliance Statement.

2.0 **ANNUAL REPORT**

2.1 The Annual Report for 2015/16 is attached as **Appendix 1,** excluding certain appendices, for the reasons set out in the table below:

| Annual Report Appendix | Document | Details |
|---|---|---|
| A | Statement of Final Accounts 2015/16 | Draft approved by the PFC 7 July 2016, see paragraph 2.2 |
| B | Auditors Report | Not yet available |
| C | Statement of Investment Principles | Approved by the PFC working group, see paragraph 4.2 |
| D | Governance Compliance Statement | Approved by the PFC working group, see paragraph 4.2 |
| E | Funding Strategy Statement | New FSS to be produced as part of the Triennial Valuation 2016 process, to be brought to February 2017 PFC meeting for approval |
| F | Communications Policy Statement | No changes made to the document |
| G | Actuarial Rates & Adjustment Certificate | Approved by the PFC 20 February 2014 as part of the Triennial Valuation process |
| H | Pensions Administration Strategy | No changes made to the document |

2.2 As agreed at the PFC meeting on the 7 July the draft accounts may be subject to change arising from the audit process, due to complete on 9 September 2016. While no material changes are envisaged, a verbal update will be given to Members at the meeting. The final version of the KPMG report, which describes the approach to the audit and identifies the key areas of risk as well as making a number of comments and observations resulting from issues arising throughout the audit process, will also be circulated to Members once available.

2.3 The Fund's auditor KPMG has advised informally that it will give an unqualified opinion of the Annual Report, subject to no material issues being identified before the audit process is completed. It is intended that a full version of this 106 page document, including appendices, will be signed at the Audit Committee meeting on 29 September 2016.

2.4 The Annual Report will be placed on the NYPF website by the deadline for publication of the 2015/16 Statement of Final Accounts of 30 September 2016.

## 3.0 LETTER OF REPRESENTATION

3.1 In previous years Deloitte required a separate Management Letter of Representation for the Pension Fund that accompanied the Annual Report. To remind Members, this letter was a written representation from management acknowledging its responsibility for the fair presentation of the Annual Report and as audit evidence on matters material to the financial statements when other sufficient appropriate evidence cannot reasonably be expected to exist.
There has been a change of approach and the new auditors, KPMG, only require one letter for the whole authority that includes the Pension Fund. Therefore the Pension Fund Committee is no longer required to approve and sign the letter.

## 4.0 GOVERNANCE DOCUMENTS

4.1 At the PFC meeting on 7 July 2016 it was agreed by Members that a Member working group would be set up to review and approve any governance documents with material changes in advance of the current meeting. This group comprised the Chair, Vice-Chair and the S151 Officer.

4.2 This group was provided with the Statement of Investment Principles (**Appendix 2**) and the Governance Compliance Statement (**Appendix 3**) for review on 25 August 2016. Aside from minor wording changes, paragraphs 2.3 and 2.4 were added to the Statement of Investment Principles, and paragraphs 2.8 and 2.9 to the Governance Compliance Statement, to refer to pooling. The former document was updated as the regulations describing its replacement, the Investment Strategy Statement, has still not been published. Both of these documents were approved by the working group.

## 5.0 RECOMMENDATIONS

5.1 Members note the Annual Report 2015/16 (ex-appendices).

5.2 Members approve the updated Statement of Investment Principles and Governance Compliance Statement.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

6 September 2016

North Yorkshire Pension Fund

# Annual Report and Accounts

# 2015/16

North Yorkshire County Council

# CONTENTS

# Part 1 – Management And Financial Performance

## 1.1 Introduction

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

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

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

## 1.2 Pension Fund Committee

PFC membership as at 31 March 2016 was as follows:

| Members | Position | Voting Rights |
|---|---|---|
| John Weighell (Chairman) | Councillor, NYCC | Yes |
| Roger Harrison-Topham (Vice-Chairman) | Councillor, NYCC | Yes |
| Bernard Bateman MBE | Councillor, NYCC | Yes |
| John Blackie | Councillor, NYCC | Yes |
| Margaret-Ann deCourcey-Bayley | Councillor, NYCC | Yes |
| Patrick Mulligan | Councillor, NYCC | Yes |
| Helen Swiers | Councillor, NYCC | Yes |
| Jim Clark | Councillor, District Councils' representative of Local Government North Yorkshire and York | Yes |
| Chris Steward | Councillor, City of York Council | Yes |
| David Portlock | Chairman of the Pension Board | No |
| 3 Unison representatives | Union Officials | No |

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

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

## 1.3 Fund Administrators, Advisers and Investment Managers

| | |
|---|---|
| Treasurer | Gary Fielding |
| Investment Consultant | Aon Hewitt |
| Independent Investment Adviser | Carolan Dobson (Investment Adviser & Trustee Services) |
| Independent Professional Observer | Peter Scales (AllenbridgeEpic) |
| Actuary | Aon Hewitt |
| Legal Services | Ward Hadaway<br>Head of Legal Services, NYCC |
| Auditor | KPMG |
| Banker | Barclays Bank |
| Custodian | Bank of New York Mellon |
| Custodian Monitoring | Thomas Murray |
| Shareholder Voting | PIRC |
| Performance Measurement | BNY Mellon Asset Servicing |
| Fund Managers | Baillie Gifford Life<br>Dodge & Cox<br>ECM Asset Management<br>FIL Pensions Management<br>Hermes Investment Management<br>Legal & General Investment Management<br>M&G Investment Management<br>Newton Investment Management<br>Standard Life Pension Funds<br>Threadneedle Pensions<br>Veritas<br>YFM Venture Finance |
| AVC Provider | Prudential |

## 1.4 Risk Management

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

(a) Pension Fund solvency remains a high risk due to the unpredictable and volatile nature of global financial markets on which both investment returns and certain market based actuarial assumptions used to value liabilities are based. The potential consequence of the risk occurring is a significant increase in contribution rates for the Fund's employers and/or an extension to the deficit recovery period. The slight fall in solvency over the last year is primarily due to falling Gilt yields and that financial markets provided very little return. Since then, markets have been volatile particularly following the outcome of the EU referendum. However, it is believed that no remedial action is presently required in order to deliver the deficit recovery plan.

(b) A new risk has been added to the risk register which relates to the LGPS Pooling Arrangements (see paragraph 1.5). This is a major change to the way in which the Pension Fund will be managed so should be considered a significant risk.

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

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

## 1.5 LGPS Pooling Arrangements

On 15 July 2016 the Fund and the twelve other LGPS funds in the Border to Coast Pensions Partnership (BCPP) sent a proposal to DCLG describing in detail how investment pooling arrangements could work. This proposal can be found here. This followed a summary proposal published by the BCPP on 19 February 2016. Both documents were responses to the Government's requirement for pooling described in guidance published on 25 November 2015, which followed a consultation in 2014.

All LGPS funds are required to enter pooling arrangements. The PFC decided that NYPF should join the BCPP as it represents a group of "like-minded" Funds where significant cost efficiencies are achievable.

# Part 2 – Scheme Administration

## 2.1 Administering Authority Arrangements

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

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

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

## 2.2 Disputes Process

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

However as part of the Pension Section's customer care policy all questions raised are dealt with via an internal process with the aim of resolving issues to the satisfaction of the Scheme member as quickly as possible. In 2015/16 only one case was received via the IDRP process and the outcome was in favour of the Fund, confirming that regulatory requirements have been followed and the appropriate action had been taken.

## 2.3 Pensions Administration

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

The focus on training in the year has been on both Pensions staff and Scheme employers as it has been recognised that the employer role in providing effective administration is now an essential element as there is far less opportunity for the Pension Fund to recognise and resolve discrepancies under the Career Average Scheme. Much work has been done to encourage employers to capture data accurately via electronic methods; it is encouraging that despite setbacks relating to payroll system specifications, employers have worked hard to meet their responsibilities.

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

## 2.4 Member Self-Service (MSS)

This is a web-based self-service facility which allows members to update their details and perform calculations. This facility has also been used to allow electronic communication with members for the retirement and estimates process. As at 31 March 2016 there were 11,672 registered users.

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

## 2.5 Electronic Annual Benefit Statements

Active and deferred Scheme members may view their Annual Benefit Statement online. The majority representing 98% of all statements are delivered in this way with only 1,060 being posted to members in 2015/16.

## 2.6 NYPF Website

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

## 2.7 Data Quality

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

# Part 3– Investment Policy And Performance

## 3.1. Investment Policy

### (a) Regulations

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

### (b) Investment Management arrangements

As at 31 March 2016 the following investment management arrangements were in place.

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

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

The agreed asset class structure for the investment portfolio as at 31 March 2016 was as follows:-

| | ***Minimum %*** | ***Maximum %*** |
|---|---|---|
| Equities | 50 | 75 |
| Alternatives | 10 | 20 |
| Fixed Income | 15 | 30 |

### (c) Custody of Investments

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

(i) Yorkshire and Humber Equity Fund, which uses the Royal Bank of Scotland plc.

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

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

## 3.2 Performance

### (a) Fund and Manager Performance

Fund performance is measured and assessed on a quarterly basis primarily by Mellon Analytical Services (MAS), a division of BNY Mellon. A second tier of analysis was provided until 31 March 2016 by State Street Global Services for the purpose of assessing comparisons with the Local Authority Universe which comprises performance data of the vast majority other local authority pension funds. Performance of the Fund and individual managers is assessed relative to the defined benchmarks specified by the PFC.

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

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

Performance for the year was +0.4% compared to the benchmark return of +1.1% and the local authority average (as measured by State Street) of +0.5%.

Performance for the North Yorkshire Pension Fund compared with the benchmark for 5 Years is shown below.

| ***Periodic Performance*** | ***1 Year*** | ***5 Years (p.a.)*** |
|---|---|---|
| North Yorkshire Pension Fund | 0.4% | 9.3% |
| Benchmark | 1.1% | 8.3% |
| Performance against benchmark | -0.7% | +1.0% |

For the year ending 31 March 2016, NYPF was ranked 39th of out 100 Local Authorities within the State Street Universe. For the 3 and 5 year periods to 31 March 2016 NYPF was ranked 4th.

The performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2016 compared with their defined benchmarks is shown in the following table:

| **Fund Manager** | **Share of Fund @ March 2016** | **Fund Performance** | **Customised Benchmark** | **+/-** |
|---|---|---|---|---|
| | **%** | **%** | **%** | **%** |
| Baillie Gifford Life Ltd - Global Alpha | 18.4 | -0.2 | -0.5 | 0.3 |
| Baillie Gifford Life Ltd - LTGG | 12.5 | 4.1 | -0.5 | 4.6 |
| Fidelity International | 10.7 | -2.9 | -2.8 | -0.1 |
| Veritas | 5.0 | 2.5 | -3.5 | 6.0 |
| Dodge and Cox | 4.3 | -10.9 | -3.5 | -7.4 |
| Standard Life Investments - Equities | 11.6 | -4.6 | 0.9 | -5.5 |
| ECM Asset Management | 5.4 | -0.5 | 0.5 | -1.0 |
| M&G Investment Management Ltd | 14.2 | 3.8 | 2.6 | 1.2 |
| Hermes Investment Management Ltd | 1.3 | 12.9 | 11.0 | 1.9 |
| Legal & General | 2.5 | 10.4 | 10.6 | -0.2 |
| Threadneedle | 3.5 | 12.4 | 10.6 | 1.8 |
| Standard Life (GARS) | 5.7 | -4.5 | 0.5 | -5.0 |
| Newton Investments (RR) | 4.5 | 0.9 | 0.5 | 0.4 |
| Internally Managed Cash | 0.4 | - | - | - |
| Total Fund | 100.0 | 0.4 | 1.1 | -0.7 |

## (b) Analysis of Accounts

The Statement of Accounts for the year 2015/16 is shown at Appendix A.

The value of the Fund's assets at 31 March 2015 was £2,400m, and this increased by £18m during the year to give a value of £2,418m at 31 March 2016.

***Analysis of Fund Account over three years to 2015/16***

| | ***2015/16 £000*** | ***2014/15 £000*** | ***2013/14 £000*** |
|---|---|---|---|
| Net additions/(withdrawals) from dealings with members | 15,840 | (8,299) | 26,665 |
| Net investment return | 8,705 | 16,610 | 17,059 |
| Change in market value of investments | (6,581) | 308,342 | 198,759 |
| Net increase/(decrease) in the Fund | 17,964 | 316,653 | 242,483 |

***Analysis of Net Asset Statement over three years to 2015/16***

| | ***2015/16 £000*** | ***2014/15 £000*** | ***2013/14 £000*** |
|---|---|---|---|
| Fixed Interest Securities | 341,598 | 161,287 | 71,424 |
| Equities | 488,055 | 701,918 | 742,593 |
| Pooled Funds | 1,391,947 | 1,335,586 | 1,141,317 |
| Pooled Property | 176,463 | 150,011 | 98,592 |
| Private Equity | 82 | 82 | 258 |
| Cash Deposits | 8,339 | 27,437 | 12,185 |
| Other | 2,813 | 4,204 | 3,158 |
| ***Total Investment Assets*** | ***2,409,297*** | ***2,380,525*** | ***2,069,527*** |

| | | | |
|---|---|---|---|
| ***Current Assets and Current Liabilities*** | ***8,536*** | ***19,344*** | ***13,689*** |
| ***Net Assets of the Fund*** | ***2,417,833*** | ***2,399,869*** | ***2,083,216*** |

(c) Accounting and Cash Flow

Prior to the start of the 2015/16 financial year, a Budget was prepared for NYPF which expressed the expected levels of expenditure (i.e. pensions, lump sums, administrative expenses) and income (i.e. employees and employers' contributions, net transfer values in, early retirement costs recharged). The Budget was monitored at each subsequent quarterly PFC meeting, and revised as necessary to take into account the latest projections.

The revised Budget for 2015/16 forecast a net cash surplus of £5.4m. The actual surplus for the year was £6.5m, resulting in an overall cash flow of £1.1m above expectations.

| | Budget 2015/16 £m | Actual Income / Expenditure £m | Variance £m |
|---|---|---|---|
| **Expenditure** | | | |
| Benefits | 100.0 | 98.8 | -1.2 |
| Administration | 1.5 | 1.5 | 0 |
| Investment Expenses | 6.6 | 7.6 | 1.0 |
| **Total Expenditure** | **108.1** | **107.9** | **-0.2** |
| **Income** | | | |
| Employer and Employee contributions | 110.5 | 110.4 | -0.1 |
| Transfers | 3.0 | 4.0 | 1.0 |
| **Total Income** | **113.5** | **114.4** | **0.9** |
| **Net Surplus** | **5.4** | **6.5** | **1.1** |

The main reasons for the variances were:

- Benefits – the budget was prudent, being based on limited forecast information being available from employers
- Investment expenses - some managers on performance related fees outperformed
- Transfers - the budget is largely based on past experience as transfer payments/receipts cannot be accurately forecast.

This analysis of expenditure was reported to the PFC as part of the quarterly Fund management arrangements and has been analysed differently in the Statement of Accounts to comply with accounting requirements and guidance.

# Part 4 – Pension Administration Activity

The number of staff (in FTE terms) at the Council involved in Pension Administration was 23.62.

## (a) Key Performance Indicators

The Local Government Pensions Committee has defined a range of performance indicators through which Pension Funds can be compared. NYPF's performance in these areas for the year to 31 March 2016 is shown below.

| Performance Indicator | LGPC Target | Achieved (%) |
|---|---|---|
| Letter detailing transfer *in* quote | 10 days | 98.46 |
| Letter detailing transfer *out* quote | 10 days | 99.45 |
| Process and pay refund | 5 days | 99.73 |
| Letter notifying estimate of retirement benefits | 10 days | 94.97 |
| Letter notifying actual retirement benefits | 5 days | 77.25 |
| Process and pay lump sum retirement grant | 5 days | 77.25 |
| Initial letter acknowledging death of active/deferred/pensioner member | 5 days | 84.73 |
| Letter notifying amount of dependant's benefits | 5 days | 84.73 |
| Calculate and notify deferred benefits | 10 days | 90.85 |

## (b) Benefit Calculation Activity

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

| Task | Number |
|---|---|
| Retirements | 1,678 |
| Transfers In | 80 |
| Refunds | 511 |
| Frozen Refunds | 827 |
| Preserved Benefits | 2,540 |
| AVCs/ARCs | 6 |
| Divorce cases | 218 |
| Deaths in Service | 24 |
| Deaths of Pensioners | 516 |

### (c) Administration

The total numbers of joiners and leavers during 2015/16 were:

| | |
|---|---|
| Joining | 6,716 |
| Retiring | 1,496 |
| Deaths | 583 |
| Other Leavers | 3,499 |

The performance and activity reflect the efforts the Pension Administration team goes to in providing a first class service to the Fund membership. NYPF is one of the leaders across LGPS administering authorities in terms of communication initiatives and innovative use of technology. Examples of this over 2015/16 include:

- Continued use of the self-service provision, with particular emphasis on encouraging members to check their Career Average Benefits via the online Annual Benefit Statement

- Developed the use of the self-service provision to members with 'deferred benefits' so that online calculations can be done

- Encourage the use of electronic communications via the online self-service provision for members going through the retirement process.

- Practical training sessions for employers

- Dedicated page for pension board pensioner representative on the NYPF website

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

# Part 5 – Membership Contributions And Scheme Benefits

## 5.1 Membership

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

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

Employees therefore have various options to provide a pension in addition to the New State Pension:-

- to be a member of the NYPF
- to purchase a personal pension plan or a stakeholder pension managed by a private sector company

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

| Membership Type | 31 March 2012 | 31 March 2013 | 31 March 2014 | 31 March 2015 | 31 March 2016 |
|---|---|---|---|---|---|
| Current Contributors | 27,770 | 29,036 | 31,501 | 35,056 | 31,748 |
| Deferred Pensions | 25,534 | 27,503 | 29,490 | 30,591 | 32,079 |
| Pensioners receiving Benefits | 15,839 | 16,755 | 17,668 | 18,444 | 19,793 |

## 5.2 Contributions

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

The total contributions received for 2015/16 on an accruals basis were £111.7m, and North Yorkshire County Council being the main employer in the Fund contributed £49.2m.

## 5.3 Employer Analysis

At 31 March 2016 there were 125 contributing employer organisations within NYPF including the County Council itself. Full details of all employers can be found in the Statement of Accounts (Appendix A). The following table summarises the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

| | Active | Ceased | Total |
|---|---|---|---|
| Scheduled | 77 | 9 | 86 |
| Admitted Body | 48 | 17 | 65 |
| ***Total*** | ***125*** | ***26*** | ***151*** |

## 5.4 Employee Rates

For employee contributions a banded structure has been in place from April 2008 linked to the rate of pensionable pay a member receives. The band ranges were updated in April 2015 as follows:

| Band | Range | Contribution rate |
|---|---|---|
| 1 | £0 to £13,600 | 5.5% |
| 2 | £13,601 to £21,200 | 5.8% |
| 3 | £21,201 to £34,400 | 6.5% |
| 4 | £34,401 to £43,500 | 6.8% |
| 5 | £43,501 to £60,700 | 8.5% |
| 6 | £60,701 to £86,000 | 9.9% |
| 7 | £86,001 to £101,200 | 10.5% |
| 8 | £101,201 - £151,800 | 11.4% |
| 9 | Over £151,801 | 12.5% |

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

Employers' contributions are determined in a cycle every three years by a Triennial Valuation. The Valuation assesses the contributions required to meet the cost of pension benefits payable as they are earned, as well as additional contributions employers may be required to pay to address any deficit relating to previous years. Further details, including a list of each employer's minimum contributions following the 2013 Valuation for the financial years 2014/15, 2015/16 and 2016/17 are shown at https://www.nypf.org.uk/Documents/Triennial_Valuation_Report_March_2013.pdf

## 5.5 Scheme Benefits

The LGPS is a comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information, including the Scheme booklet *A Long Guide to the Local Government Pension Scheme for Employees in England and Wales*, can be found on the North Yorkshire Pension Fund (NYPF) website at https://www.nypf.org.uk/formsandguides/schemeguides.shtml. A paper copy can be requested by ringing the NYPF at County Hall, Northallerton on 01609 536335.

**Normal Pension Age**

The Normal Pension Age is a member's State Pension Age for both men and women (earlier voluntary retirement allowed from age 55 but benefits are reduced for early payment). However, some members have a protected Normal Pension Age of 65 years.

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

**Pension (Normal)**

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

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

**Pension (Ill Health)**

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

First Tier: If there is no reasonable prospect of being capable of gainful employment before Normal Pension Age the employee's LGPS pension is enhanced by 100% of the remaining potential pension to Normal Pension Age based on 1/49$^{th}$ of an 'Assumed Pensionable Pay' figure which is a calculation of the pensionable pay on a prescribed basis for the period between the date of retirement and Normal Pension Age.

Second Tier: If it is likely that the employee will be capable of undertaking any gainful employment before Normal Pension Age the employee's LGPS service is enhanced by 25% of the remaining potential pension to Normal Pension Age.

Third Tier: If it is likely that the employee will be capable of undertaking any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement but the benefits are only payable for a maximum period of 3 years (though reviewed at 18 months to assess any improvement in the member's health).

**Lump Sum Retirement Grant**

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

**Death Grant**

(i) Death in Service

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

If a member has a deferred benefit and / or a pension in payment from a previous period of membership of the scheme, the lump sum death grant will be any lump sum death grant payable in respect of those benefits or the death in service lump sum death grant of three times your **assumed pensionable pay**, whichever is the greater.

(ii) Death after Retirement

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

(iii) Death of a member with Preserved Benefits

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

If a member was an active member of the LGPS (with North Yorkshire or any other fund) and died in service the death grant payable will be the higher of the death in service lump sum or the combined total of any deferred pensions or pensions already in payment.

**Spouses, civil partners and nominated cohabiting partner's pension**

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

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

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

**Children's Pension**

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

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

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

**Pension Increases**

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

**AVCs**

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

## Part 6 – Governance Documentation

The main governance documentation is as follows:

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

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

### (a) Statement of Investment Principles

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

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

### (b) Governance Compliance Statement

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

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

(c) Funding Strategy Statement

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

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

In addition to this, the Funding Strategy Statement covers:

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

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

(d) Communications Policy Statement

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

(e) Pension Administration Strategy

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

# Part 7 – Training

## 7.1 Public Sector Pensions – Finance Knowledge and Skills

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

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

## 7.2. Training for Pension Fund Committee Members and Officers

(i) Internal

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

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

(ii) Externally Provided

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

Events attended by PFC Members during 2015/16 were:

| Event | Place | Date |
|---|---|---|
| NAPF Local Authority Conference | Gloucestershire | 18 – 20 May 2015 |
| LGC Investment Summit | Newport | 10 – 11 September 2015 |
| NAPF Annual Conference | Liverpool | 14 – 16 October 2015 |
| NAPF Investment Conference | Edinburgh | 9 – 11 March 2016 |

## Part 8 – Glossary And Contact Details

ACTIVE MEMBER:
Current employee who is contributing to a pension scheme.

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

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

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

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

ALTERNATIVES:
An alternative investment is an asset that is not one of the conventional investment types, such as stocks, bonds and cash. Alternative investments include private equity, hedge funds, managed futures, real estate, commodities and derivatives contracts

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

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

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

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

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

DIVERSIFIED GROWTH FUNDS (DGF):
An alternative way of investing in shares, bonds, property and other asset classes.

EMPLOYER CONTRIBUTION RATES:
The percentage of the salary of employees that employers pay as a contribution towards the employees’ pension.

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

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

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

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

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

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

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

UNREALISED GAINS/LOSSES:
The increase or decrease in the market value of investments held by the fund since the date of their purchase.

## Contact Information

**North Yorkshire Pension Fund**
County Hall
Northallerton
North Yorkshire
DL7 8AL

**Telephone:** Pensions Help & Information Line on 01609 536335
**Email:** pensions@northyorks.gov.uk

website: *www.nypf.org.uk*

**The Pensions Advisory Service (TPAS)**
TPAS
11 Belgrave Road
London
SW1V 1RB

**Telephone:** The Pensions Helpline: 0845 601 2923
**Email:** enquiries@pensionsadvisoryservice.org.uk.
website: *www.pensionsadvisoryservice.org.uk*

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

| | | | |
|---|---|---|---|
| 2,444 | - Early Retirement Costs Recharged | 2,572 | |
| 25,075 | Employees - Normal | 25,492 | |
| 248 | - Additional Voluntary | 233 | |
| 120,491 | **Total Contributions Receivable (Note 7)** | | 111,688 |
| 6,663 | **Transfers In (Note 8)** | | 8,680 |
| | **Less** | | |
| | **Benefits** | | |
| (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) | **Total Benefits Payable (Note 9)** | | (98,732) |
| | **Leavers** | | |
| (138) | Refunds to Members Leaving Service | (364) | |
| 0 | Payments for Members Joining State Scheme | 0 | |
| (40,840) | Transfers Out | (3,603) | |
| (40,978) | **Total Payments on Account of Leavers (Note 10)** | | (3,967) |
| (2,114) | **Management Expenses (Note 11)** | | (1,829) |
| (8,299) | **Net Additions From Dealings With Members** | | 15,840 |
| | **RETURNS ON INVESTMENTS** | | |
| 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 14a)** | | (6,581) |
| 324,952 | **Net Returns On Investments** | | 2,124 |
| 316,653 | **Net Increase in the Fund During the Year** | | 17,964 |
| 2,083,216 | **Opening Net Assets of the Fund** | | 2,399,869 |
| 2,399,869 | **Closing Net Assets of the Fund** | | 2,417,833 |

## NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

| 31 March 2015 £000 | | 31 March 2016 £000 |
|---|---|---|
| | **INVESTMENT ASSETS (Notes 15 & 16)** | |
| 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 | **TOTAL INVESTMENT ASSETS** | 2,420,068 |
| | **INVESTMENT LIABILITIES (Notes 15 & 16)** | |
| 0 | Derivative Contracts - Forward Currency Contracts | 0 |
| (1,123) | Investment Creditors | (10,771) |
| (1,123) | **TOTAL INVESTMENT LIABILITIES** | (10,771) |
| 2,380,525 | **NET INVESTMENT ASSETS** | 2,409,297 |
| | **CURRENT ASSETS** | |
| 9,841 | Contributions due from employers | 7,612 |
| 242 | Other Non-Investment Debtors | 903 |
| 12,049 | Cash | 3,780 |
| 22,132 | **TOTAL CURRENT ASSETS** | 12,295 |
| | **CURRENT LIABILITIES** | |
| (2,788) | Non-investment creditors | (3,759) |
| (2,788) | **TOTAL CURRENT LIABILITIES** | (3,759) |
| 2,399,869 | **TOTAL NET ASSETS (Note 16)** | 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 | Norton on Derwent Town Council |
| All Saints CE School (Yorkshire Causeway Trust) | Oatlands Junior School (Red Kite Learning Trust) |
| Archbishop Holgate's School | Outwood Academy |
| Askham Bryan College | Pickering Town Council |
| Askwith School (YA Collaboration Trust) | Poppleton Ousebank School (Hope Learning Trust) |
| Bilton Grange School (YA Collaboration Trust) | Richard Taylor School (Yorkshire Causeway Trust) |
| Brotherton and Byram School (Ebor Academy Trust) | Riccall Parish Council |
| Chief Constable - North Yorkshire Police Force | Richmond Town Council |
| City of York Council | Richmondshire District Council |
| Craven College | Ripon City Council |
| Craven District Council | Robert Wilkinson Primary Academy (Ebor Academy Trust) |
| Easingwold Town Council | Roseberry Academy (Enquire Learning Trust) |
| Filey Town Council | Rossett School |
| Foss Internal Drainage Board | Ryedale District Council |
| Fulford Parish Council | Scarborough Borough Council |
| Glusburn Parish Council | Scarborough Sixth Form College |
| Great Ayton Parish Council | Selby College |
| Great Smeaton Academy Primary School | Selby District Council |
| Hambleton District Council | Selby Town Council |
| Harrogate Borough Council | Skipton Girls High School (Northern Star Academies Trust) |
| Harrogate Grammar (Red Kite Learning Trust) | Skipton Town Council |
| Harrogate High (Northern Star Academy Trust) | South Craven School (South Craven Academy Trust) |
| Haxby Road Academy (Ebor Academy Trust) | St Aidan's CESchool (Yorkshire Causeway Schools Trust) |
| Haxby Town Council | St Peter’s CE Primary School (Yorkshire Causeway Trust) |
| Hunmanby Parish Council | St Stephen’s RC School (Bishop Wheeler Academy Trust) |
| Huntington Primary Academy | St. Joseph’s School (Bishop Wheeler Academy Trust) |
| Knaresborough Town Council | Stokesley School Academy |
| Lothersdale Schools (YA Collaboration Trust) | Sutton in Craven Parish Council |
| Malton Town Council | Tadcaster Town Council |
| Manor Academy (Hope Learning Trust) | The Grove Academy |
| Mary’s RC School (Bishop Wheeler Academy Trust) | The Skipton Academy (Craven Educational Trust) |
| North Yorkshire Moors National Park | The Woodlands Academy |
| North Yorkshire County Council | Thomas Hinderwell Primary Academy |
| North Yorkshire Fire & Rescue Authority | Thornton (Vale of Pickering) IDB |
| North Yorkshire Police & Crime Commissioner | Western CP School (Red Kite Learning Trust) |
| Northallerton / Romanby Burial Board | Whitby Town Council |
| Northallerton Town Council | York College |
| New Park Academy (Northern Star Academy Trust) | Yorkshire Dales National Park |
| Norton College | |

| 48 Admitted Bodies | |
|---|---|
| Be Independent<br>Betterclean Services<br>Bulloughs Cleaning Ltd<br>Catering Academy Ltd<br>Chartwells Compass<br>Churchill Security<br>Community Leisure<br>Consultant Services Group<br>Craven Housing<br>Dewent Facilities Management<br>Dolce Ltd<br>Elite<br>Enterprise<br>Explore York Libraries and Archives<br>Grosvenor Facilities Management<br>Housing and Care 21<br>Human Support Group<br>Hutchison Catering<br>Interserve<br>ISS Mediclean Ltd<br>Jacobs UK Ltd<br>Joseph Rowntree Trust<br>Lifeways Community Care Ltd<br>Make It York | Mellors<br>Northern Care<br>NYBEP<br>OCS Group UL Ltd<br>Premier Support Services<br>Richmondshire Leisure<br>Ringway<br>Sanctuary Housing Association<br>Sewell Facilities Management<br>Sheffield International Venues<br>Sports and Leisure Management<br>Springfield Home Care<br>Streamline Taxis<br>Superclean<br>University of Hull<br>Veritau Ltd<br>Veritau North Yorkshire Ltd<br>Welcome to Yorkshire<br>Wigan Leisure & Culture Trust<br>York Archaeological Trust<br>York Museums & Gallery Trust<br>York St John University<br>Yorkshire Coast Homes<br>Yorkshire Housing Ltd |

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

| | 31 March 2016<br>No | 31 March 2015<br>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 | 33,990 | 35,056 |
| **Pensioners** | | |
| NYCC | 10,623 | 9,961 |
| Other employers | 9,087 | 8,483 |
| Total | 19,710 | 18,444 |
| **Deferred pensioners** | | |
| NYCC | 19,560 | 18,829 |
| Other employers | 12,409 | 11,762 |
| Total | 31,969 | 30,591 |

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

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

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

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 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** | **2014/15** |
|---|---|---|
| | £000 | £000 |
| Contributions Receivable | | |
| North Yorkshire County Council | 49,156 | 48,239 |
| Other Scheduled Bodies | 55,521 | 65,235 |
| Admitted Bodies | 7,011 | 7,017 |
| | 111,688 | 120,491 |

### 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** | **2014/15** |
|---|---|---|
| | £000 | £000 |
| Benefits Payable | | |
| North Yorkshire County Council | 42,069 | 39,268 |
| Other scheduled bodies | 49,115 | 47,440 |
| Admitted bodies | 7,548 | 5,653 |
| | 98,732 | 92,361 |

### 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 | 2014/15 |
|---|---|---|
| | £000 | £000 |
| Administrative Costs | 1,412 | 1,519 |
| Investment Management Costs | 7,968 | 4,943 |
| Oversight and Governance Costs | 417 | 595 |
| | 9,797 | 7,057 |

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 |
| | 16,963 | 21,943 |

## 13. Taxes on Income

| | £000 | £000 |
|---|---|---|
| Withholding Tax on Dividends | 290 | 390 |

## 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 | 2,398,145 | (6,581) | (1,349,551) | 1,405,393 | 2,348,884 |
| Cash Deposits | 8,339 | | | | 27,437 |
| Net Investment Debtors | 2,813 | (1,391) | | | 4,204 |
| Net Investment Assets | 2,409,297 | (7,972) | | | 2,380,525 |

| | Value at 31 March 2015 | Change in market value at 31 March 2015 | Sales proceeds and derivative receipts | Purchases at cost and derivative payments | Value at 1 April 2014 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Fixed Interest | 161,287 | 36,090 | (482,958) | 536,731 | 71,424 |
| Equities | 701,918 | 48,328 | (434,593) | 345,590 | 742,593 |
| Pooled Funds | 1,335,586 | 204,266 | (30,997) | 21,000 | 1,141,317 |
| Pooled Property | 150,011 | 19,724 | 0 | 31,695 | 98,592 |
| Private Equity | 82 | (66) | (110) | 0 | 258 |
| Derivative Contracts | 0 | 0 | 23 | 0 | (23) |
| Total Invested | 2,348,884 | 308,342 | (948,635) | 935,016 | 2,054,161 |
| Cash Deposits | 27,437 | | | | 12,185 |
| Net Investment Debtors | 4,204 | 1,023 | | | 3,181 |
| Net Investment Assets | 2,380,525 | 309,365 | | | 2,069,527 |

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 | 2014/15 |
|---|---|---|
| | £000 | £000 |
| Fixed Interest Securities | | |
| UK Public Sector Quoted | 341,598 | 161,287 |
| Equities | | |
| UK Quoted | 274,721 | 347,559 |
| Overseas Quoted | 213,334 | 354,359 |
| | 488,055 | 701,918 |
| 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 | 129,395 | 172,333 |
| | 1,321,688 | 1,285,770 |
| Diversified Growth Funds - UK | 246,722 | 199,827 |
| Private Equity - UK | 82 | 82 |
| Total Investments (excl Derivatives) | 2,398,145 | 2,348,884 |
| Cash Deposits | 8,339 | 27,437 |
| Net Investment Debtors | 2,813 | 4,204 |
| Net Investment Assets | 2,409,297 | 2,380,525 |

### 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 |
| | 2,417,833 | 100.00 | 2,399,869 | 100.00 |

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 |
| | | | **Assets** | | | |
| 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 | |
| 2,354,211 | 49,569 | - | | 2,411,728 | 20,635 | - |
| | | | **Liabilities** | | | |
| - | | | Derivative Contracts | - | | |
| 1,123 | | | Investment Creditors | 10,771 | | |
| | | 2,788 | Non Investment Creditors | | | 3,759 |
| 1,123 | - | 2,788 | | 10,771 | - | 3,759 |
| 2,353,088 | 49,569 | (2,788) | | 2,400,957 | 20,635 | (3,759) |

### 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 | (20,489) | 16,275 |
| | (27,070) | 324,617 |

### 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 | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | £000 | £000 | £000 | £000 |
| **Assets** | | | | |
| Fair Value through Profit & Loss | 2,411,646 | | 82 | 2,411,728 |
| Loans and Receivables | 20,635 | | | 20,635 |
| | 2,432,281 | - | 82 | 2,432,363 |
| **Liabilities** | | | | |
| Fair Value through Profit & Loss | 10,771 | | | 10,771 |
| Liabilities at Amortised Cost | 3,759 | | | 3,759 |
| | 14,530 | - | - | 14,530 |
| Net Assets | 2,417,751 | - | 82 | 2,417,833 |

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

## 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.

| Asset Type | Potential Market Movements (+/-) |
|---|---|
| | % |
| 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).

| Asset Type | Value as at 31 March 2016 | Potential Market Movement | Value on Increase | Value on Decrease |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| 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 |
| Total Assets | 2,411,240 | | 2,801,544 | 2,020,936 |

| Asset Type | Value as at 31 March 2015 | Potential Market Movement | Value on Increase | Value on Decrease |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| 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 |
| Total Assets | 2,383,616 | | 2,566,060 | 2,201,172 |

### 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.

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

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:

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

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

### 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 | 31 March 2015 |
|---|---|---|---|
| | | £000 | £000 |
| **Call Accounts** | | | |
| Barclays | A/F1 | 569 | 3,119 |
| Santander UK | A/F1 | 15 | 249 |
| **Fixed Term Deposit Notice Accounts** | | | |
| 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:

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

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

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

Life expectancy for the year to 31 March 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 | 2014/15 |
|---|---|---|
| | £000 | £000 |
| **Debtors** | | |
| **Investment Debtors** | | |
| Investment Transactions | 9,676 | 1,499 |
| Accrued Dividends | 2,122 | 2,542 |
| Withholding Taxes Recoverable | 1,786 | 1,286 |
| | 13,584 | 5,327 |
| **Other Debtors** | | |
| Contributions due from Scheduled (Government) Bodies | 7137 | 9,361 |
| Contributions due from Admitted Bodies | 475 | 480 |
| Pensions Rechargeable | 253 | 11 |
| Interest on Deposits | 107 | 0 |
| Other | 543 | 231 |
| | 8,515 | 10,083 |
| **Total Debtors** | **22,099** | **15,410** |

## 21. Current Liabilities

| | 2015/16 | 2014/15 |
|---|---|---|
| | £000 | £000 |
| **Creditors** | | |
| Investment Creditors | 10,771 | 1,123 |
| Sundry Other Creditors | 3,759 | 2,788 |
| | 14,530 | 3,911 |

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 | Market Value 31 March 2015 |
|---|---|---|
| | £000 | £000 |
| Prudential | 19,644 | 21,180 |

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).

## 25. Contingent Assets

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

## 26. Impairment Losses

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

# North Yorkshire Pension Fund
# Statement of the Actuary for the year ended 31 March 2016

**Introduction**

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the North Yorkshire Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Mercer Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

**Actuarial Position**

**1.** The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £1,841M) covering 73% of the liabilities in respect of service prior to the valuation date allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.

**2.** The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 was:

- 13.8% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure effective from 1 April 2014.

**Plus**

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 27 years, amounting to £28M in 2014/15, and increasing by 4.1% p.a. thereafter.

Allowance was made for post valuation market changes to 31 August 2013. On average across the Fund, the updated deficit would be eliminated by a monetary amount of£21M in 2014/15, and increasing by 4.1% p.a. thereafter.

**3.** In practice, each individual employer's position is assessed separately and contributions are set out in the certificate attached to Mercer Limited's report dated March 2014 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.

**4.** The funding plan adopted in assessing the contributions for each individual employer was in accordance with the Funding Strategy Statement in force at the time.

**5.** The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

| | |
|---|---|
| Discount rate for past service liabilities (funding target) | 4.8% p.a. |
| Discount rate for future service liabilities | 5.6% p.a. |
| Rate of inflationary pay increases (long term)* | 4.1% p.a. |
| Rate of increase to pension accounts | 2.6% p.a. |
| Rate of increases in pensions in payment<br>(in excess of Guaranteed Minimum Pension) | 2.6% p.a. |

* allowance was also made for short-term public sector pay restraint over a 5 year period in calculating the past service liabilities.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

**6.** The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date (other than the allowance for post valuation market changes as mentioned above).

**7.** The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 28 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

The actuarial valuation of the Fund as at 31 March 2016 is currently underway. The Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions for the period from 1 April 2017 to 31 March 2020 to be signed off by 31 March 2017.

**8.** This Statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out by Mercer Limited as at 31 March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, North Yorkshire County Council, the Administering Authority of the Fund, in respect of this Statement.

**9.** The actuarial valuation report is available on the Fund's website at the following address: https://www.nypf.org.uk/nypf/valuationreports.shtml

Aon Hewitt Limited

19 August 2016

## AUDITOR’S STATEMENT TO A PENSION FUND IN RESPECT OF THE FINANCIAL STATEMENTS PUBLISHED WITH THE PENSION FUND ANNUAL REPORT WHEN AN OPINION HAS ALREADY BEEN ISSUED ON THE PENSION FUND FINANCIAL STATEMENTS IN THE STATEMENT OF ACCOUNTS OF THE ADMINISTERING AUTHORITY

## INDEPENDENT AUDITOR’S STATEMENT TO THE MEMBERS OF NORTH YORKSHIRE COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2015, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26.

This report is made solely to the members of North Yorkshire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Corporate Director – Strategic Resources and the auditor**

As explained more fully in the Statement of the Corporate Director – Strategic Resources Responsibilities, the Corporate Director – Strategic Resources is responsible for the preparation of the pension fund’s financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of North Yorkshire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We also read the other information contained in the pension fund annual report as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority’s full annual statement of accounts describes the basis of our opinions on those financial statements.

**Opinion**

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of North Yorkshire County Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Christopher Powell FCA (Engagement Lead)
For and on behalf of Deloitte LLP
Appointed Auditor
Leeds UK

25 September 2015

APPENDIX C

# NORTH YORKSHIRE PENSION FUND

# STATEMENT OF INVESTMENT PRINCIPLES

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## 1.0 INTRODUCTION

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

## 2.0 INVESTMENT DECISION MAKING PROCESS

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

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

2.3 LGPS pooling arrangements are due to be implemented from April 2018. NYPF has joined the Border to Coast Pensions Partnership (BCPP) which sent a proposal to DCLG on how pooling arrangements could work, including describing the changes to the investment decision making process thought necessary. No specific changes have been agreed to date, but it is intended that an FCA regulated entity, established and controlled by 12 of the 13 administering authorities of BCPP, will be responsible for implementing investment strategy decisions, including the selection of appropriate investment managers. The PFC of each administering authority will continue to be responsible for its own investment strategy.

2.4 The full proposal is available on NYPF's website, which includes sections on pooling assets, decision making and manager selection.

## 3.0 TYPES OF INVESTMENTS TO BE HELD

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

| | |
|---|---|
| **UK Equities** | provide a share in the assets and profitability of public companies floated on UK stock exchanges. Capital gains and losses arise as share prices change to reflect investor expectations at the market, sector and stock levels. Income is derived from dividends. |
| **Overseas Equities** | are similar to UK Equities but allow greater diversification amongst markets, sectors and stocks. Valuations are affected by exposure to movements in the relative value of the foreign currencies in which investments are made against sterling. Exchange rates are likely to reflect differentials in inflation so should not affect returns materially over the long term, but over the short term currency movements may significantly add to or subtract from returns. Equities are expected to provide high returns compared to other asset classes (the "equity-risk premium"); to address the NYPF deficit position a high proportion of assets will be held in equities. |
| **UK Bonds** | are debt instruments issued by the UK Government and other borrowers. Bonds provide a fixed rate of interest and |

| | |
|---|---|
| | are usually redeemed at a fixed price on a known future date. Valuations primarily reflect the fixed level of interest, the period to redemption and the overall return demanded by investors. They are vulnerable to rising inflation and correspondingly benefit from falling inflation. |
| **Overseas Bonds** | are similar to UK Bonds but have exposure to currency exchange rate fluctuations. As with UK bonds they are influenced by local inflation rates. |
| **Index Linked Bonds** | are bonds that provide interest and a redemption value directly linked to a measure of inflation, usually the Retail Price Index or a similar index. The returns from this asset class act as a useful proxy for movements in liability values. |
| **Diversified Growth Funds** | are an alternative way of investing in shares, bonds, property and other asset classes. These funds are managed by specialist multi-asset managers and target returns slightly below that of equities but with significantly reduced volatility due to the diversification of their constituent parts. |
| **UK Property** | is an investment in buildings, indirectly through pooled vehicles. Capital gains and losses occur as prices fluctuate in line with rental levels and investor demand. Income is generated from rents collected from tenants. The nature of rental agreements gives property some of the characteristics of bonds, whilst growth and inflation provide some of the characteristics of equities. It is, therefore, a useful diversifying asset class. |
| **Derivative Instruments** | such as options and futures are mechanisms through which the Fund can be protected from sudden changes in share prices or exchange rates. Although not income producing they can result in capital gains and losses. They may be used to hedge the Fund's exposure to particular markets. |
| **Cash** | is invested in authorised institutions in accordance with the treasury management policy of the Council under the terms of a Service Level Agreement and attracts interest at market rates. |

## 4.0 BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

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

4.2 The Investment Strategy Review, carried out periodically, establishes a benchmark asset mix against which actual Fund performance can be measured. The last Review took place in 2013; the next review will take place alongside the 2016 Valuation. This Review provides a framework designed to produce the returns the Fund requires over the long term to meet its future liabilities. Each asset class is allocated a range and rebalancing takes place when values stray beyond them due to market conditions. Further rebalancing may take place based on strategic views of the Fund's advisers.

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

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

| | Minimum % | Maximum % |
|---|---|---|
| Equities | 50 | 75 |
| Alternatives | 10 | 20 |
| Fixed Income | 15 | 30 |

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

## 5.0 RISK

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

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

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

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

## 6.0 EXPECTED RETURN ON ASSETS

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

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

**7.0 REALISATION OF INVESTMENTS**

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

**8.0 SOCIALLY RESPONSIBLE INVESTMENTS**

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

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

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

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

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

**9.0 SHAREHOLDER GOVERNANCE**

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

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

**10.0 STOCK LENDING**

10.1 The Fund has not released stock to a third party under a stock lending arrangement within a regulated market during the financial year 2015/16 or in any previous years.

## 11.0 COMPLIANCE WITH GUIDANCE FROM THE SECRETARY OF STATE

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

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

**Effective decision making – full compliance**

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

**Clear objectives – full compliance**

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

**Risks and liabilities – full compliance**

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

**Performance assessment – full compliance**

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

**Responsible ownership – full compliance**

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

**Transparency and reporting – full compliance**

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

July 2016

APPENDIX D

# NORTH YORKSHIRE PENSION FUND

# GOVERNANCE COMPLIANCE STATEMENT

**TABLE OF CONTENTS**

## 1.0 INTRODUCTION

1.1 This Statement has been prepared by North Yorkshire County Council (NYCC, or “the Council”) as administering authority of the North Yorkshire Pension Fund (NYPF, or “the Fund”) in accordance with the requirements of the provisions of the Local Government Pension Scheme Regulations 2013.

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

## 2.0 GOVERNANCE ARRANGEMENTS

### Pension Fund Committee

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

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

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

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

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

### Pension Board

2.2 The Pension Board is responsible for assisting the Council in securing compliance with the regulations, and to ensure the efficient and effective governance and administration of the LGPS. The Pension Board has an oversight role in the governance of the Fund.

2.3 The key points from the terms of reference are:

- there are 9 members of the Pension Board, being 4 scheme member representatives (voting), 4 employer representatives (voting) and 1 independent chair (non-voting)
- there are 4 meetings each year
- the Pension Board has its own policies on conflicts of interest and training
- costs of the Pension Board are met by the Fund

### Independent Professional Observer

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

### Functions Delegated to Officers

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

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

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

**NYPFOG**

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

**LGPS Pooling Arrangements**

2.8 LGPS pooling arrangements, which are due to be implemented from April 2018 will require changes to the governance arrangements of the Fund. NYPF has joined the Border to Coast Pensions Partnership (BCPP) which has sent a proposal to DCLG on how pooling arrangements could work, including describing the changes to governance thought necessary. No specific changes have been agreed to date, but to facilitate the further development of arrangements two informal bodies have been created. The Member Steering Group comprises the Chairs of 12 of the 13 administering authorities in BCPP. This Group oversees the work of officers of the administering authorities who make up the Officer Operations Group.

2.9 The full proposal is available on NYPF's website, which includes the terms of reference of these two bodies and how the BCPP members intend to work together.

## 3.0 REPRESENTATION AND MEETINGS

**Representation**

3.1 The current membership of the PFC is as follows (as at July 2016)

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

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

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

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

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

(f) the quorum required for Committee Meetings is three

**Meetings**

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

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

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

3.5 The PFC convenes once each quarter, at County Hall in Northallerton. The Fund's investment managers are scheduled to attend additional meetings where the PFC specifically considers fund manager performance and related matters. At least four supplementary meetings a year are normally held for this purpose. In attendance at each meeting are the Investment Adviser, the Investment Consultant, the Treasurer and representative members of his staff involved with the NYPF and a Committee Clerk (NYCC).

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

## 4.0 OPERATIONAL PROCEDURES

**Training**

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

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

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

**Reporting and Monitoring**

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

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

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

4.8 Outside of this periodic reporting to the PFC

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

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

## 5.0 KEY POLICY / STRATEGY DOCUMENTS

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

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

## 6.0 COMPLIANCE WITH BEST PRACTICE PINCIPLES

### 6.1 Structure

| | | |
|---|---|---|
| a | The Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council | Fully compliant |
| b | That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee | Fully compliant. It is assumed that the Pension Board fulfils the role of a secondary panel and these stakeholder groups are all eligible to be represented |
| c | That where a secondary committee or panel has been established, the structure ensures effective communication across both levels | Fully compliant. It is assumed that the Pension Board fulfils the role of a secondary panel |
| d | That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel | Fully compliant |

### 6.2 Representation

| | | |
|---|---|---|
| a | That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:<br>i) employing authorities (including non-scheme employers, eg admitted bodies<br>ii) scheme members (including deferred and pensioner scheme members)<br>iii) where appropriate, independent professional observers<br>iv) expert advisers | Fully compliant |
| b | That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full | Fully compliant |

| | | |
|---|---|---|
| | opportunity to contribute to the decision making process, with or without voting rights | |

6.3 **Selection and Role of Lay Members**

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

6.4 **Voting**

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

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

6.5 **Training / Facility Time / Expenses**

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

6.6 **Meetings (Frequency/Quorum)**

| | | |
|---|---|---|
| a | That an administering authority's main committee or committees meet at least quarterly | Fully compliant |
| b | That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits | Fully compliant |
| c | That administering authorities who do not include lay | Fully compliant |

| | | |
|---|---|---|
| | members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented | |

6.7 **Access**

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

6.8 **Scope**

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

6.9 **Publicity**

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

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

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

### 1. INTRODUCTION

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

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

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

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

The benefits provided by the NYPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations") and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme

Regulations 2013 (“the 2013 Regulations”) governs the NYPF from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

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

## 2. PURPOSE OF THE FSS IN POLICY TERMS

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

The purpose of this Funding Strategy Statement is:

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

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

## 3. AIMS AND PURPOSE OF THE NYPF

**The aims of the Fund are to:**

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

**The purpose of the Fund is to:**

- receive monies in respect of contributions, transfer values and investment income,
- and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

## 4. RESPONSIBILITIES OF THE KEY PARTIES

**The Administering Authority** should:

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

**The Individual Employer** should:

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

**The Fund actuary** should:

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

## 5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

### Funding Objective

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

### Determination of the Funding Target and Recovery Period

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

Underlying these assumptions are the following two tenets:

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

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

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

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

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

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

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

- A default recovery period of 21 years will apply.

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

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

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

The employer contributions will be expressed and certified as two separate elements:

- a percentage of pensionable payroll in respect of the future accrual of benefit
- a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation.

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

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

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

- the responses made to the consultation with employers on the FSS principles

- relevant guidance issued by the CIPFA Pensions Panel

- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and

- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

**Deficit Recovery Plan**

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

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

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

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

The assumptions to be used in these Recovery Plan calculations are set out on page 80.

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

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

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

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

In assessing the value of the NYPF's liabilities in the valuation, allowance has been made for asset out-performance as described in pages 77-80, taking into account the investment strategy adopted by the NYPF, as set out in the SIP.

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

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

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

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

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

**Bespoke Investment Strategy**

The Investment Strategy adopted by NYPF is determined for the Fund as a whole. This Strategy takes into account the characteristics of NYPF as a whole, and therefore those of the constituent employers as an aggregated entity - it does not seek to distinguish between the individual liability profiles of different employers. The Strategy adopted to date, as reflected in the current SIP, is to invest a significant proportion of the assets in equities. Such investments offer a higher expected return, but also carry a higher level of risk.
NYPF is prepared to offer any employer the opportunity to adopt a Bespoke Investment Strategy (eg 100% bonds). However, to the extent that any Bespoke Investment Strategy will necessitate different investment return assumptions to those used by the Actuary for NYPF overall, there may be a consequential impact on the contribution rate calculated for that employer.

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

## 7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

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

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

**What are the Risks?**

**Financial**

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

**Demographic**

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

**Insurance of certain benefits**

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

**Regulatory**

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

**Governance**

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

## 8. MONITORING AND REVIEW

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

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

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

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

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

## ACTUARIAL VALUATION AS AT 31 MARCH 2013
## Method and assumptions used in calculating the funding target

### Method

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

### Financial assumptions

#### *Investment return (discount rate)*

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

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

#### *Inflation (Consumer Prices Index)*

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

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

#### *Salary increases*

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

***Pension increases/Indexation of CARE benefits***

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

**Demographic assumptions**

***Mortality***

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

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

**Commutation**

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

***Other Demographics***

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

***Expenses***

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

***Discretionary Benefits***

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

## Method and assumptions used in calculating the cost of future accrual

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

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

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

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

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

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

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

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

***Demographic assumptions***

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

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

## Assumptions used in calculating contributions payable under the recovery plan

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

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

**Increases in yields on fixed and index linked gilts**

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

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

# North Yorkshire Pension Fund

# Admissions and Terminations Funding Policy

## 1 Introduction

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

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

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

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

## 2 Principles

### Termination of an admission agreement

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

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

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

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

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

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

**Funding basis / Controlled Flexibility**

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

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

**Administering Authority options**

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

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

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

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

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

- The admission body's application may be refused.

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

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

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

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

## 3 Implementation

### New admissions

3.1 With effect from 26 May 2011 the NYPF will apply the above principles to the admission of new bodies into the Fund.

3.2 The above methodology for the assessment of a termination payment will apply to all admission bodies on cessation of each body's participation in the NYPF.

### Transferee admission bodies (TABs)

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

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

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

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

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

**Community admission bodies (CABs)**

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

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

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

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

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

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

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

**Notification of Termination**

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

**Grouped bodies**

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

- Grouped Scheduled Bodies (Town and Parish Councils admitted prior to 31 March 2008).

- NYCC - Local Management of Schools (NYCC LMS) Pool

- City of York – Local Management of Schools (COY LMS) Pool

Further details of these groupings are set out below.

**Grouped Scheduled Bodies**

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

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

3.16 Any unfunded liability that cannot be reclaimed from the outgoing body will be underwritten by the group and not all employers in the Fund.

3.17 Following the termination of a grouped body, any residual liabilities and assets in respect of that body will be subsumed by any guarantor body for the group, or in the absence of a guarantor, subsumed by the Fund as a whole.

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

3.18 The LMS pool refers to the grouping of some transferee admission bodies relating to catering and cleaning contracts within schools. On the admission of each such body to the Fund, the Assistant Director, Finance & Central Services for CYPS appropriate assistant director at North Yorkshire County Council will determine whether they should be included in the LMS pool.

3.19 Employers in the LMS pool will pay the same contribution rate as that payable by North Yorkshire County Council or City of York depending on which pool they are in.

3.20 At each triennial actuarial valuation, for the purpose of determining the contributions, the Actuary will pool together the assets and liabilities in respect of the Council and all other employers included in that Council's LMS pool. The contribution rate so determined will be payable by all the employer members of that Council's LMS pool.

3.22 On termination of an admission body within the LMS pool, no termination valuation will be calculated. The assets and liabilities relating to the employees will be subsumed by North Yorkshire County Council or City of York depending on which pool they are in.

# Communications Policy Statement
# July 2016

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

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## COMMUNICATIONS POLICY STATEMENT

### 1.0 BACKGROUND

1.1 Each of the Local Government Pension Scheme (LGPS) Funds in England and Wales is required to publish a Statement of policy under Regulation 61 of the Local Government Pension Scheme Regulations 2013 relating to the Communications Strategy for the Fund.

1.2 The key requirements for preparing the Statement are summarised as follows:

*(a) An Administering Authority must prepare, maintain and publish a written statement setting out its policy concerning communications with members, representatives of members, prospective members and Scheme employers*

*(b) In particular the statement must set out its policy on the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers, the format, frequency and method of distributing such information or publicity, and the promotion of the scheme to prospective members and their employers*

*(c) The statement must be revised and published following a material change in the policy.*

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

## 2.0 OBJECTIVES

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

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

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

## 3.0 STAKEHOLDERS

3.1 The key stakeholders for the NYPF are:

- **the County Council's Pension Fund Committee** who make decisions about the way the Pension Fund and pension benefits are managed and administered
- **scheme employers** who use the scheme to help recruit, retain and support employees and who themselves contribute to the Fund
- **scheme members** (current contributors, deferred and retired members) and their representatives who are ultimately the recipients of the benefits of the pension scheme
- **prospective scheme members** who are eligible to benefit from the scheme but have not yet joined
- **staff employed by the County Council and other employers who are responsible for the management and operation** of the Pension Fund and pension benefits

3.2 Other stakeholders who contribute to the NYPF include –

- the Fund Actuary
- the Investment Adviser
- the Investment Consultant
- the Independent Professional Observer
- investment managers
- the asset custodian

- the AVC provider
- the Fund Solicitor

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

## 4.0 **METHODS OF COMMUNICATION**

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

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

### Pension Fund Committee

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

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

### Scheme Employers

4.4 The following will be provided to all Scheme Employers:

- newsletter* – updates delivered electronically
- technical material – any information connected with the Scheme and its administration is issued to Employer nominated liaison officer(s)
- consultation – opportunities for NYPF/Employer consultation wherever a collaborative approach is appropriate or policy changes are proposed or required
- website – including discrete area for 'employer only' information
- Pension Fund Officer Group (NYPFOG) – regular meetings held between NYPF and Employer representatives
- one to one employer meetings – dealing with any matters arising between NYPFOG meetings including training employers' staff engaged in pension administration activities
- Employers Guide* – detailing pension administration processes
- Pensions Administration Strategy* – agreed protocol setting out the respective responsibilities of NYCC (as the administering authority of the Fund) and the Fund's Employing Authorities

- Communications Strategy setting out the current communication arrangements and future developments
- Employer access to employee data – a means of providing data online including starters, leavers, amendments and contributions
- Admission Agreements – provide advice, process management and data analysis for any prospective employer pursuing admitted body status

**Scheme Members**

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

- Scheme Guide (short guide)* – downloaded by new members of the Scheme or provided in hard copy on request by employers
- Scheme Guide (full)* - available on the Fund website or provided on request
- Membership Certificate (Statutory Notice) – confirmation of participation in the LGPS following the commencement of employment
- estimate of benefits***** – calculated by members online or provided on request in appropriate cases
- annual benefit statement***** – provided on-line for active and deferred members or can be provided in hard copy on request
- newsletter***** – as appropriate for active and deferred members and once per year for retired members
- pre-retirement courses – support for employer led courses as required up to 6 times per year
- membership data on-line* – personal data securely available to active and deferred members
- electronic satisfaction surveys – conduct surveys for qualitative assessments on such matters as payment of retirement benefits, satisfaction with call-handling etc. A hard copy is available on request.
- pay advice (sent to pensioners when they first retire and thereafter when gross pension changes by £1 or more per month)
- replies to any correspondence by letter or e-mail
- helpline – contact available via telephone during office hours or voicemail out of office hours
- website – including online benefits calculator and other self-service facilities. A generic email address is available with resulting queries being delivered to an Inbox which is dealt with on a daily basis during office hours by assigned staff members

**Prospective Scheme Members**

4.6 The following will be available to prospective members:

- Scheme Guide (short guide)* - distributed via the employers to all new employees or downloaded from the website
- direct promotion – will assist the employer in promoting the Scheme via employer communication systems eg pay advice, newsletters, induction seminars, etc

- helpline – contact available via telephone during office hours or voicemail out of office hours
- website – including Scheme guides to the LGPS.

## 5.0 ANNUAL COMMUNICATIONS STRATEGY (incorporating Action Plan)

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

5.2 The Strategy includes the following -

- commentary on current operating context for the Fund
- progress on actions included in previous Annual Strategy
- details of proposed actions for next year

## 6.0 KEY POLICY / STRATEGY DOCUMENTS

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

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

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

## 7.0 REVIEW OF THIS POLICY STATEMENT

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

## 8.0 **FURTHER INFORMATION**

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

**In writing**
North Yorkshire Pension Fund
County Hall
Northallerton
North Yorkshire
DL7 8AL

**By telephone**
Pensions Help and Information Line
01609 536335

**By email**
pensions@northyorks.gov.uk

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

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# APPENDIX G

## Rates and Adjustments Certificate issued in accordance with Regulation 36 of the Administration Regulations

| | |
|---|---|
| **Name of Fund** | **North Yorkshire Pension Fund** |

### Primary Contribution Requirements

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2014 should be at the rate of 13.8 per cent of Pensionable Pay (including those in respect of members of the LGPS under the 50:50 option).

I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2014, as set out above, should be individually adjusted as set out in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in Appendix H or in a separate agreement with an individual employer, and the contributions in the attached schedule take account of any such agreements.

### Further Adjustments

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's Actuary and the Administering Authority.





The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of zero.

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

In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions, as shown on the schedule to this Certificate in Appendix H, may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

The Administering Authority and employer with advice from the Fund's Actuary can agree that contributions payable under this certificate can be sourced under an alternative financing arrangement which provides the Fund with equivalent cash contribution or increased security.

### Regulation 36(8)

No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

**Signature:** Ian Kirk **Date of signing:** 28 March 2014

**Name:** Ian Kirk **Qualification:** Fellow of the Institute and Faculty of Actuaries

APPENDIX H

# North Yorkshire Pension Fund

# Pensions Administration Strategy

## February 2016

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

## Index

# Pensions Administration Strategy

## 1.0 Purpose of Strategy

1.1 This Strategy sets out the administration protocols between employers and the North Yorkshire Pension Fund (NYPF). The protocols aim to ensure the cost effective running of the Local Government Pension Scheme (LGPS) and the best service possible for LGPS members. The protocols ensure that the statutory requirements and timescales can be met and therefore must be followed at all times.

1.2 For the purpose of this Strategy no practical distinction is drawn between the statutory role of North Yorkshire County Council as the Administering Authority for the NYPF, its Pension Fund Committee, the Pension Administration Section or other sections of the Central Services Directorate all of whom play a role in the administration of NYPF – the term NYPF is used collectively to reflect all of the above roles within NYCC. The Pension Board also exists to assist the Administering Authority in ensuring that the NYPF is managed and administered effectively and efficiently and complies with pensions' legislation and requirements imposed by the Pensions Regulator.

## 2.0 Regulatory Background

2.1 The protocols cannot override any provision or requirement in the Regulations outlined below or in any other relevant legislation.

2.2 This Strategy is made under regulation 59 of the Local Government Pension Scheme (LGPS) Regulations 2013. The principal Regulations underpinning this document are:

- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
- The Local Government Pension Scheme Regulations 2013
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (and any amendments thereto)
- The Local Government Pension Scheme (Administration) Regulations 2007
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2007
- The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (and any amendments thereto)
- The Local Government Pension Scheme Regulations 1997 (and any amendments thereto)
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (and any amendments thereto)
- The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (and any amendments thereto)
- the Occupational Pension Schemes (Preservation of Benefit) Regulations 1991
- the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ("the
- Disclosure Regulations")
- the Pensions Act 1995
- the Pensions Act 2004
- the Pensions Act 2008
- the Data Protection Act 1998
- the Finance Act 2004
- the Automatic Enrolment (Miscellaneous Amendment) Regulations 2013
- the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 including amendments to any of these Regulations

## 3.0 Review of the Strategy

3.1 This Strategy will be kept under review by NYPF.

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

3.3 The Pension Fund Committee and the Pension Board will be asked by NYPF to formally review the Strategy on an annual basis.

## 4.0 Performance Levels

4.1 Performance level agreements are set out in this document for both employers and NYPF. These will be reviewed annually, any changes will be communicated to employers and can be discussed at NYPFOG meetings.

4.2 This Strategy is the agreement between NYPF and employers about the levels of performance and associated matters to ensure that the statutory requirements and timescales can be met at all times.

## 5.0 Responsibilities and Duties of the Employer

### 5.1 Contact Person

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

### 5.2 Authorised Signatories

Each employer is required to provide a list of nominated individuals to act as authorised signatories whose names and specimen signatures are held by the NYPF. In signing a document an authorised officer is certifying that the form comes from the employer stated and also that the information being provided has been validated and is correct. Consequently if an authorised signatory is certifying information that someone else has completed, for example, leaving information including a final salary pay, career average pay, assumed pay, they should be satisfied that the correct validation process has been completed and the information is correct.

5.3 It is the employer's responsibility to ensure that details of the nominated contact and authorised signatures are correct and to notify the NYPF of any changes immediately. Failure to update authorised signatories will result in delays in carrying out pensions administration processes affecting individual scheme members, including payment of pension benefits.

### 5.4 Disclosure and Pensions Regulator Requirements

The Pensions Regulator sets out specific requirements for public sector pension schemes set out in the 'Code of Practice No.14'. Paragraphs 128 – 130 refer to the need for employers to understand and comply with the scheme manager's processes to ensure that the statutory requirements and timescales can be met at all times.

## 5.5 Member details – Employer performance levels

The employer must forward notifications to NYPF using the forms on the employer pages of the NYPF website as follows:

| Event | Timescale for employer notifying the NYPF |
|---|---|
| **New starters**<br>**(Employer Pen11 form)** | **Within one month of the employee joining**<br><br>Where an electronic Employer Pen11 has been submitted, the Employee Pen11 should be sent as soon as possible. |
| **Change in member's details**<br>**(Change of Members Personal Details form)** | **Within 6 weeks of the event** |
| **Leavers**<br>**(SU5 form)**<br>There are two SU5s, one for members who have had an absence in their final year and one for members without absences | **Within 6 weeks of the employee leaving** |
| **Advanced Notification of Retirement**<br>**(ADNOT form)** | **At least 30 days before the last day of employment** |
| **Retirements**<br>**(SU5 form)**<br>There are two SU5s, one for members who have had an absence in their final year and one for members without absences | **No later than 2 weeks following retirement**<br><br>Disclosure Regulations require that when a retirement takes place before Normal Pension Age (NPA) NYPF receives the SU5 no later than one month after the date of retirement. Where a retirement takes place on or after NPA, NYPF receives the SU5 no more than 20 days after the date of retirement. |
| **Death in Service** | **Within 3 working days of the employer being notified of the death of the member** |

## 5.6 Employee's Guide

Under the Occupational Pension Schemes (Disclosure of Information) Regulations 2013 the employer must ensure that all new employees eligible to join the LGPS receive a copy of the Employees' Guide to the Scheme as follows:

- Where you have received jobholder information, the Guide must be given within one month of the date that information was received.
- Where you have not received jobholder information, the Guide must be given within two months of the date the person became an active member of the scheme.

**Year-end information**

5.4 The employer (or their payroll contractor/agency for which the employer is responsible) shall provide NYPF with final salary (where applicable) and Career Average Revalued Earnings (CARE) year-end information as at 31 March each year in a notified format no later than 30 April or the next working day.

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

**Contribution deductions**

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

**Payment of contributions to NYPF**

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

**Payment dates**

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

**Late Payment**

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

**Payment method**

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

**Remittance Advices**

5.10 The employer must email a monthly return to pension.contributions@northyorks.gov.uk, in advance of their payment. The monthly return is in a prescribed format and is provided by the Integrated Finance team. The form must state the employers name and reference number, the period and the amount of the payment split between employees and employers contributions. In addition, it should include the total pensionable pay, details of added-years contributions, Additional Regular contributions, Additional Pension Contributions and any other payroll related adjustments.

### AVC Contributions

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

### Discretionary Powers

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

### Employer Decisions

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

### Independent Medical Practitioner

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

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

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

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

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

### Data Protection

5.18 Under the Data Protection Act 2003, the employer will protect from improper disclosure any information about a member contained (where applicable) on any item sent from NYPF. It will also only use information supplied or made available by NYPF for the operation of the Local Government Pension Scheme.

### Internal Dispute Procedure

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

**Fines imposed on NYPF**

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

**Charges to the employer**

5.21 NYPF may give written notice to employing authorities under regulation 70 in respect of the employers unsatisfactory performance in carrying out its Scheme functions, including but not limited to those detailed in **paragraph 5.5** above, and the amount due from employers. The written notice may include charges imposed by NYPF for chasing employers for outstanding information such as detailed in **paragraph 7.5**.

## 6.0 Responsibilities and Duties of NYPF

**Regulatory Issues**

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

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

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

**NYPF Performance Levels**

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

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

**Support to Employers**

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

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

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

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

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

**Independent Medical Practitioner**

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

### Services to Members

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

6.10 NYPF will provide a service to members that meets the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 2013.

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

### Multiple Language Literature

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

### Data Protection

6.13 Under the Data Protection Act 2003, NYPF will protect from improper disclosure any information held about a member. Information held will only be used by NYPF for the operation of the Local Government Pension Scheme.

### Internal Dispute Resolution

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

## 7.0 Contribution Rates and Administration Costs

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

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

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

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

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

- non receipt of new entrant documentation requiring NYPF to set up temporary data and/or complete documentation on behalf of the employer
- non receipt of leaver details requiring NYPF to interrogate payroll or other systems on the employers behalf
- chasing outstanding information following one reminder
- FRS17/IAS19 valuations
- ad hoc actuarial & legal advice (e.g. TUPE transfer)
- ad hoc technical advice, (where re-charging is deemed appropriate because the advice is not of general benefit to the Fund overall)

## 8.0 Communications

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

**Part A**

# NORTH YORKSHIRE PENSION FUND

# STATEMENT OF INVESTMENT PRINCIPLES

TABLE OF CONTENTS

## 1.0 INTRODUCTION

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

## 2.0 INVESTMENT DECISION MAKING PROCESS

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

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

2.3 LGPS pooling arrangements are due to be implemented from April 2018. NYPF has joined the Border to Coast Pensions Partnership (BCPP) which sent a proposal to DCLG on how pooling arrangements could work, including describing the changes to the investment decision making process thought necessary. No specific changes have been agreed to date, but it is intended that an FCA regulated entity, established and controlled by 12 of the 13 administering authorities of BCPP, will be responsible for implementing investment strategy decisions, including the selection of appropriate investment managers. The PFC of each administering authority will continue to be responsible for its own investment strategy. However, the powers and information available to a PFC to assist it in fulfilling its overall responsibilities are likely to be considerably less than has hitherto been the case.

2.4 The full proposal is available on NYPF's website, which includes sections on pooling assets, decision making and manager selection.

## 3.0 TYPES OF INVESTMENTS TO BE HELD

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

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

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

| | |
|---|---|
| **UK Bonds** | are debt instruments issued by the UK Government and other borrowers. Bonds provide a fixed rate of interest and are usually redeemed at a fixed price on a known future date. Valuations primarily reflect the fixed level of interest, the period to redemption and the overall return demanded by investors. They are vulnerable to rising inflation and correspondingly benefit from falling inflation. |
| **Overseas Bonds** | are similar to UK Bonds but have exposure to currency exchange rate fluctuations. As with UK bonds they are influenced by local inflation rates. |
| **Index Linked Bonds** | are bonds that provide interest and a redemption value directly linked to a measure of inflation, usually the Retail Price Index or a similar index. The returns from this asset class act as a useful proxy for movements in liability values. |
| **Diversified Growth Funds** | are an alternative way of investing in shares, bonds, property and other asset classes. These funds are managed by specialist multi-asset managers and target returns slightly below that of equities but with significantly reduced volatility due to the diversification of their constituent parts. |
| **UK Property** | is an investment in buildings, indirectly through pooled vehicles. Capital gains and losses occur as prices fluctuate in line with rental levels and investor demand. Income is generated from rents collected from tenants. The nature of rental agreements gives property some of the characteristics of bonds, whilst growth and inflation provide some of the characteristics of equities. It is, therefore, a useful diversifying asset class. |
| **Derivative Instruments** | such as options and futures are mechanisms through which the Fund can be protected from sudden changes in share prices or exchange rates. Although not income producing they can result in capital gains and losses. They may be used to hedge the Fund's exposure to particular markets. |
| **Cash** | is invested in authorised institutions in accordance with the treasury management policy of the Council under the terms of a Service Level Agreement and attracts interest at market rates. |

## 4.0 BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

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

4.2 The Investment Strategy Review, carried out periodically, establishes a benchmark asset mix against which actual Fund performance can be measured. The last Review took place in 2013; the next review will take place alongside the 2016 Valuation. This Review provides a framework designed to produce the returns the Fund requires over the long term to meet its future liabilities. Each asset class is allocated a range and rebalancing takes place when values stray beyond them due to market conditions. Further rebalancing may take place based on strategic views of the Fund's advisers.

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

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

| | Minimum % | Maximum % |
|---|---|---|
| Equities | 50 | 75 |
| Alternatives | 10 | 20 |
| Fixed Income | 15 | 30 |

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

## 5.0 RISK

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

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

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

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

## 6.0 EXPECTED RETURN ON ASSETS

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

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

## 7.0 REALISATION OF INVESTMENTS

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

## 8.0 SOCIALLY RESPONSIBLE INVESTMENTS

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

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

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

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

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

## 9.0 SHAREHOLDER GOVERNANCE

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

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

## 10.0 STOCK LENDING

10.1 The Fund has not released stock to a third party under a stock lending arrangement within a regulated market during the financial year 2015/16 or in any previous years.

## 11.0 COMPLIANCE WITH GUIDANCE FROM THE SECRETARY OF STATE

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

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

**Effective decision making – full compliance**

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

**Clear objectives – full compliance**

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

**Risks and liabilities – full compliance**

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

**Performance assessment – full compliance**

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

**Responsible ownership – full compliance**

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

**Transparency and reporting – full compliance**

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

July 2016

**PART B**

# NORTH YORKSHIRE PENSION FUND

# GOVERNANCE COMPLIANCE STATEMENT

**TABLE OF CONTENTS**

## 1.0 INTRODUCTION

1.1 This Statement has been prepared by North Yorkshire County Council (NYCC, or “the Council”) as administering authority of the North Yorkshire Pension Fund (NYPF, or “the Fund”) in accordance with the requirements of the provisions of the Local Government Pension Scheme Regulations 2013.

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

## 2.0 GOVERNANCE ARRANGEMENTS

### Pension Fund Committee

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

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

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

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

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

**Pension Board**

2.2 The Pension Board is responsible for assisting the Council in securing compliance with the regulations, and to ensure the efficient and effective governance and administration of the LGPS. The Pension Board has an oversight role in the governance of the Fund.

2.3 The key points from the terms of reference are:

- there are 9 members of the Pension Board, being 4 scheme member representatives (voting), 4 employer representatives (voting) and 1 independent chair (non-voting)
- there are 4 meetings each year
- the Pension Board has its own policies on conflicts of interest and training
- costs of the Pension Board are met by the Fund

**Independent Professional Observer**

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

**Functions Delegated to Officers**

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

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

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

**NYPFOG**

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

**LGPS Pooling Arrangements**

2.8 LGPS pooling arrangements, which are due to be implemented from April 2018 will require changes to the governance arrangements of the Fund. NYPF has joined the Border to Coast Pensions Partnership (BCPP) which has sent a proposal to DCLG on how pooling arrangements could work, including describing the changes to governance thought necessary. No specific changes have been agreed to date, but to facilitate the further development of arrangements two informal bodies have been created. The Member Steering Group comprises the Chairs of 12 of the 13 administering authorities in BCPP. This Group oversees the work of officers of the administering authorities who make up the Officer Operations Group.

2.9 The full proposal is available on NYPF's website, which includes the terms of reference of these two bodies and how the BCPP members intend to work together.

## 3.0 REPRESENTATION AND MEETINGS

**Representation**

3.1 The current membership of the PFC is as follows (as at July 2016)

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

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

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

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

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

(f) the quorum required for Committee Meetings is three

**Meetings**

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

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

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

3.5 The PFC convenes once each quarter, at County Hall in Northallerton. The Fund's investment managers are scheduled to attend additional meetings where the PFC specifically considers fund manager performance and related matters. At least four supplementary meetings a year are normally held for this purpose. In attendance at each meeting are the Investment Adviser, the Investment Consultant, the Treasurer and representative members of his staff involved with the NYPF and a Committee Clerk (NYCC).

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

## 4.0 OPERATIONAL PROCEDURES

### Training

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

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

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

### Reporting and Monitoring

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

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

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

4.8 Outside of this periodic reporting to the PFC

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

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

## 5.0 KEY POLICY / STRATEGY DOCUMENTS

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

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

## 6.0 COMPLIANCE WITH BEST PRACTICE PINCIPLES

### 6.1 Structure

| | | |
|---|---|---|
| a | The Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council | Fully compliant |

| | | |
|---|---|---|
| b | That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee | Fully compliant. It is assumed that the Pension Board fulfils the role of a secondary panel and these stakeholder groups are all eligible to be represented |
| c | That where a secondary committee or panel has been established, the structure ensures effective communication across both levels | Fully compliant. It is assumed that the Pension Board fulfils the role of a secondary panel |
| d | That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel | Fully compliant |

6.2 **Representation**

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

6.3 **Selection and Role of Lay Members**

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

6.4 **Voting**

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

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

6.5 **Training / Facility Time / Expenses**

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

6.6 **Meetings (Frequency/Quorum)**

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

6.7 **Access**

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

6.8 **Scope**

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

6.9 **Publicity**

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

# North Yorkshire County Council

# Pension Board

Minutes of the meeting of the Pension Board held on Thursday 14 July 2016 at County Hall, Northallerton commencing at 10 am.

**Present:-**

**Members of the Board**

David Portlock (Independent Chairman).

Employer Representatives:
County Councillor Mike Jordan, Councillor Ian Cuthbertson (City of York), Phil MacDonald (University of Hull) and Louise Branford-White (Hambleton District Council).

Scheme Members:
Ben Drake, (Unison), Gordon Gresty, Stella Smethurst (Unison) and Mandy Swithenbank (GMB).

**In attendance:-**

County Council Officers: Amanda Alderson, Anna Binks, Steve Loach, Tom Morrison and Jo Wade.

Also present: Adam Nagy - work experience.

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

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

**Resolved -**

That the public and press be excluded from the meeting during consideration of item 13 on the agenda on the grounds that it involved the likely disclosure of 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.

**42. Apologies for Absence**

There were no apologies for absence.

**43(a) Minutes**

**Resolved -**

That subject to an alteration to Minute No. 37 - LGPS Pooling - Update, page 9, second bullet point, second paragraph, penultimate sentence - remove "requirement" after “would be no”, the Minutes be taken as read, confirmed and signed by the Chairman as a correct.

Arising from those Minutes a Member noted that issues around pooling arrangements, discussed at the previous meeting, had resulted in a recommendation that a further opportunity be provided to Members of the Pension Board to discuss the next response by the BCPP to those arrangements, prior to submission to Government. It was noted that the submission was due on 15 July, the day following this meeting, and, therefore, the recommendation had not been met. The Chairman acknowledged the issue raised, but noted that Pension Fund Officers had circulated the draft document to Pension Board Members and that some comments had been submitted in relation to that. He stated that the Pension Fund Committee had discussed the draft document a week earlier (7 July) and similar reservations had been expressed by Members of that Committee. He emphasised that, unfortunately, because of the tight deadlines involved, the draft document was not available to Members of the Pension Board to discuss until the date of this meeting. He stated that further discussion of the issue would take place later in the meeting.

**43(b) Action Record**

Considered -

The Action Record noting the progress made on actions agreed at previous meetings.

It was suggested that where actions would be ongoing, that an update be provided within the complete section, indicating when the issue had been further discussed at a Pension Board meeting.

**Resolved -**

That the suggestion, detailed above, be incorporated into the Action Record and the updates be noted.

**44. Declarations of Interest**

It was clarified that Members of the Pension Board were not required to disclose their membership of the Pension Scheme, as defined in the regulations relating to Pension Boards.

**45. Public Questions or Statements**

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

**46. Internal Audit Reports**

Considered -

The report of Legal and Democratic Services which provided an update on Internal Audit activity.

It was again reported that there had been no Internal Audit activity in relation to the Pension Fund since the last Pension Board meeting, with the 2015/16 reports expected shortly. It was expected that reports would be available for consideration at the next meeting of the Board. Officers noted that they had recently received an update report on one of the issues, in draft form, for their comments.

The Chairman and Members asked that their concerns over the delays to the report be brought to the attention of Internal Audit, with an expectation that the required reports were available for the next meeting of the Pension Board.

In terms of the report that had been circulated to officers it was noted that it was usual practice for issues to be discussed between officers, management and Internal Audit, before the report became public to determine whether any issues identified could easily be addressed.

It was emphasised that should any major issue arise, that was of significant concern, then both the Pension Fund Committee and Pension Board would be made aware of that immediately.

**Resolved -**

That the report, together with the comments made, be noted and that Internal Audit be made aware of those comments.

**47. Review of the Risk Register**

Considered -

The report of Legal and Democratic Services presenting the updated NYPF Risk Register to the Pension Board for comments. Details of the Risk Register had been presented to, and agreed, at the previous week's meeting of the Pension Fund Committee and details of how each risk was assessed were provided within the report.

It was noted that the latest review of the Risk Register had taken place in June 2016 and the updated version was attached as Appendix 1 to the report. There had been some minor amendments to the existing risks and one new risk had been added. Details of the ranking of those risks were provided within the report.

It was noted that the currently "red flagged" risks related to the fluctuating market conditions at present and were not of serious concern. The additional risk, referred to above, related to LGPS pooling and issues around the delivery of cost savings and performance improvements, the effect on the Fund's solvency and the potential for increased employer contribution rates. In relation to that risk it was noted that, currently, there was no fall-back position highlighted, as the pooling arrangements had been made mandatory by Central Government, and it was difficult to ascertain what other position could be adopted should these arrangements not be entered into.

Members of the Board highlighted the following issues and points in respect of the report:-

- It was noted that the Investment Strategy was monitored on an ongoing basis by the Pension Fund Committee in terms of the risk identified. The Strategy was evolving and when Government regulations were in place the Statement of Investment Principles would be replaced with a Funding Strategy Statement. This would be taken account of in the Risk Register. It was noted that discussion at the previous week's Pension Fund Committee had indicated that pooling would not eliminate the Pension Fund Committee from setting its Investment Strategy, however, the process would take away the implementation of that Strategy, directly, from the Committee.

- A Member asked whether the vote to exit from the EU had been considered as an appropriate risk in terms of its potential effect on the Investment Strategy and a number of other factors that could be affected by this. It was acknowledged that the decision to leave the EU was resulting in wide scale changes, both politically and economically, and, as a new risk, it was asked whether this was being taken account of within the Risk Register. In response it was stated that some time would be taken to determine how the exit from the EU would affect the issues around the North Yorkshire Pension Fund before any decisions were taken as to the effect this may have. It was acknowledged that a change to the Investment Strategy may be required, but at the present time, this could not be determined. A number of Members agreed that it was too soon to determine what effect leaving the EU would have on the Fund.

  In terms of the risk relating to exit from the EU it was suggested that this was covered in the Risk Register through the Investment Strategy risk.

  In respect of this issue it was emphasised that no request had been made to change the risk assessment or plan, however, it was suggested that details of how the situation would continue to be monitored should be provided alongside the narrative to the Investment Strategy risk.

- It was asked when details of the next triennial valuation would be available. In response it was stated that this took place on 31 March 2016 and details were likely to be with Members by early 2017. It was emphasised that the current market variations since the valuation would be taken into account when details were provided. A Member considered that he would have expected to see the details by late summer. In response it was stated that the time stated was usual practice for the Pension Fund and it was noted that with over 90,000 members, collecting the appropriate data took a substantial period of time. In respect of the triennial valuation it was emphasised that this did not affect the current Investment Strategy which was not replaced at every valuation, but may require some tweaking following that.

- A Member suggested that issues arising from Pension Fund Committee meetings and, therefore, the report by the Chairman to the Pension Board of those meetings, should be moved further towards the beginning of the agenda for future Pension Board meetings, to take account of issues raised earlier in the meeting. It was agreed that this would be an appropriate course of action.

**Resolved -**

That the comments and observations raised by Pension Board Members be noted and that feedback from Pension Fund Committee meetings would be moved up the agenda for future meetings.

**48. External Audit Report to Audit Committee - "Maintaining an Effective Control Framework"**

Considered -

The report of Legal and Democratic Services providing details of the External Auditor's interim report on its work to date in relation to the audit of the Pension Fund's Financial Statements 2015/16.

It was noted that the audit of the 2015/16 Financial Statements was currently being undertaken by KPMG and that this would be their first audit of the North Yorkshire Pension Fund.

The interim audit work on the Pension Fund Financial Statements took place in March and April 2016 and, following this, KPMG produced a report outlining their key findings and recommendations which was attached as an Appendix to the report.

The report was considered by the Audit Committee at its meeting on 23 June 2016 and a verbal update of the Committee's comments was given to this meeting.

The final audit of the North Yorkshire Pension Fund Statement of Accounts would take place during July and August 2016.

Members raised the following issues and points:-

- Arising from the audit the North Yorkshire Pension Fund had been given a clean bill of health aside from a small number of minor issues around the reconciliation of bank accounts and the signing off of journal entries. In relation to these issues assurances were provided that appropriate controls were in place and that appropriate signing of and supporting documents were provided.

- It was noted that the County Council had developed a good relationship with the External Auditors since they had taken on the role.

- It was stated that the full reconciliation of the Pension Fund accounts had not quite been completed, but this was expected to be in place shortly. It was noted that the timing of the External Auditor's checks in relation to this had led to the delays and this had been challenged with them with a view to avoiding this position in future. It was noted that the audit that had been carried out to date, and reported to the County Council's Audit Committee, had not identified any significant concerns.

**Resolved -**

That the contents of KPMG's report be noted and a copy of the finalised minutes of this meeting be submitted to the External Auditor, accordingly.

**49. Draft Minutes of the Pension Fund Committee meeting held on 19 May 2016 and the report of the meeting held on 7 July 2016**

The Chairman reported on the Minutes of the Pension Fund Committee of 19 May, that were approved at its meeting held on 7 July, and on issues raised at that meeting.

The Chairman highlighted the following issues that were raised at the 7 July meeting:-

- Pooling.
- The Pension Fund's Final Accounts.
- Governance documents.
- The Communications Strategy.
- The Fund's Investment Strategy.

- The intended move from the Statement of Investment Principles to an Investment Strategy Statement.

In respect of the issues raised it was noted that the Government was in the process of producing the regulations for the Investment Strategy Statement, to replace the Statement of Investment Principles, but currently there was no indication as to when these would be in place. The document was required for the Pension Fund's Annual Report and, unless the regulations were in place, then the Statement of Investment Principles would continue to be used for the Annual Report. It was noted that the Pension Fund Committee had agreed a delegation process to enable the regulations to be applied as soon as they were available enabling the position to be updated as quickly as possible.

Issues around pooling had been further discussed, which had included a discussion on the Committee's influence over the Funding Strategy, with the pool reducing the chance for direct contact with Fund Managers.

It was noted that the Final Accounts would be published before the end of September 2016 and noted that, in future, the publication of accounts would take place earlier in the year.

Members of the Pension Board discussed issues around the possibility of the Pension Fund investing into the prime debt market, with the pros and cons outlined.

**Resolved -**

That the issues raised at the Pension Fund Committee meetings be noted and the Chairman be thanked for his report.

**50. CIPFA Seminar - "Local Pension Boards - One Year On"**

The Chairman reported on the seminar, that he had attended on 29 June 2016, and it was noted that he had circulated details of the issues raised at that seminar to Members of the Pension Board prior to the meeting. He considered that the seminar had been worthwhile and had provided an opportunity to determine how Pension Boards were progressing, following their initial establishment. He stated that the North Yorkshire Pension Board was performing appropriately and in line with other Pension Boards throughout the country, although different Boards had different techniques and processes in respect of how they performed their responsibilities.

A Member asked whether other Pension Boards were operating separate Risk Registers from their Pension Fund Committees and whether this should be developed for the North Yorkshire Pension Fund. The Chairman stated that this matter was not discussed at the seminar, however, it was an issue that could be investigated if Members of the Pension Board so wished.

Officers stated that they would consider what other Pension Boards were undertaking, in terms of their own Risk Registers, and whether this was a matter that could be developed by the North Yorkshire Pension Board. It was further suggested that consideration be given to the wider practice of other Pension Boards, by officers, with a view to developing best practice.

In discussion of the development of a Risk Register and potential risks to the Pension Fund it was noted that, should the Pension Board identify an additional risk that was not included in existing Risk Registers, this would be brought to the attention of the

Pension Fund Committee, who in turn would be required to respond to the Pension Board on what they were doing to address this matter.

**Resolved -**

That the Chairman be thanked for his feedback from the seminar and the actions identified be undertaken accordingly.

**51. Training and Meeting Dates**

Considered -

The report of Legal and Democratic Services providing an update on Pension Board Member training and details of meeting dates for the remainder of the 2016/17 municipal year and proposed dates for the 2017/18 municipal year.

Details of training undertaken by Members of the Board was highlighted in the report and Members were invited to provide any further training details, which they considered relevant to their service to the Pension Board, to be submitted to the Clerk, allowing the training record to be updated. It was stated that details of any relevant training, whether connected to pensions issues or not, would outline the collective knowledge and development of the Pension Board's members.

The following meeting dates for 2016/17 and 2017/18 (all Thursdays at 10 am) were also outlined, as follows:-

2016/17

6 October 2016
26 January 2017
20 April 2017

2017/18

20 July 2017
12 October 2017
18 January 2018
12 April 2018

**Resolved -**

(i) That Members continue to identify any appropriate training needs and aim to complete the modules on the Pension Regulators website.

(ii) That the meeting dates for 2016/17 and 2017/18, as detailed above, be noted.

**52. Pension Board Work Plan**

Considered -

The Pension Board's approved Work Plan and potential areas of work for the Board.

A Member stated that, in the near future, as some of his current work included this, he would like to lead on item 19 within the Work Plan, the review of the exercise of employer and administering authority discretions. In response the Chairman suggested that a one page proposal of how this was to be carried out, and the conclusions that would be developed from that, would be appropriate and officers stated that they would work alongside the Member to determine the best approach to this. Further details on the scope for this piece of work, and proposed timescales, would be provided to the next meeting of the Pension Board.

It was noted, from a Member's question, that he was not receiving the Pension Fund Committee papers and it was agreed to rectify this. It was stated that, in relation to his questions, the Pension Fund Committee often held meetings with Fund Managers to determine how the Investment Strategy was being addressed and that Pension Board Members were able to attend those meetings, unless any confidential information was to be discussed.

A Member noted that some of the issues identified in the Work Plan were falling behind the timescales indicated. In response it was acknowledged that this was the case, however, the development of pooling arrangements had taken precedent over some of the issues to be addressed by the Pension Fund Committee, before coming to the Pension Board, and had slipped therefore. It was expected that these matters would be addressed subsequently and would be brought to the Pension Board accordingly.

**Resolved -**

That the Work Programme be noted and the item of work identified, as detailed above, be the subject of a report to the next meeting of the Pension Board to determine scope and timescale.

**53. LGPS Pooling - Update**

Considered -

The report of Legal and Democratic Services providing an update on LGPS pooling arrangements, in respect of the proposed submission of a detailed proposal relating to the BCPP Fund, of which the North Yorkshire Pension Fund agreed to join in principle, by 15 July 2016.

It was noted that a draft detailed proposal had been submitted to the previous week's Pension Fund Committee, with responses expected from all the pool's participants, before the submission was sent.

In relation to that officers indicated that there had been only minor changes to the proposal, provided as an Appendix to the report, and that those amendments had been of a superficial nature. It was stated that although the arrangements could evolve as the pool developed, the format and structure set out in the Appendix were the likely initial starting point for the pool.

Discussion of the report resulted in the following issues and points being raised:-

♦ Issues around the costs of establishing the pool and the time period for those costs to be fully met, in terms of North Yorkshire Pension Fund, were discussed. In relation to this it was noted that NYPF was in a relatively strong position, in terms of the recovery of those costs, in comparison to other Funds entering into pooling arrangements.

♦ Concern was expressed in relation to the development of a further layer of bureaucracy, at a cost to the North Yorkshire Pension Fund Scheme members, and it was requested that details of costs/savings and transitional costs be outlined to inform those within the Scheme.

- It was suggested that a comparison should be undertaken to determine whether the investments by the North Yorkshire Pension Fund would have performed better as a separate entity rather than under the pooling arrangements to determine whether the process had been of benefit. A Member suggested that details of how much additional expenditure, as opposed to what was being spent now in administering the Fund, should also be outlined.

- Issues around the role of the Pension Board in the governance arrangements for the pool were discussed. It was noted that governance arrangements were not yet in place and these would be determined shortly. Concern was raised that details of how the whole process would work was yet to be developed and it was not clear how the Pension Board would relate to that. An explanation was provided as to the expected process for the operation of the pool and its inter-relation between the Joint Steering Committee, the Pension Fund Committee and the Pension Board. Full details of that process, when it was established, would be presented to the Pension Board.

- It was indicated that potential savings for the North Yorkshire Pension Fund, and pool members as a whole, could emanate from the economies of scale of combining the Funds, which could offset some of the additional administrative costs required to establish the pool. It was likely that Fund Manager fees would be reduced, through the pooling arrangements, which would generate appropriate savings. It was acknowledged that there would be transition costs and Members' concerns in respect of those were noted. A projection of the expected savings, following the initial period of transition costs, was requested by a Member of the Board.

- Members of the Board expressed concern regarding the role of the Pension Board with the pool, as there appeared to be no direct link between the two. There was also concern expressed regarding the appointment of a Chief Executive who would appear to be quite powerful, in terms of the pool's investment opportunities, which seemed to contradict the Government's new regulatory framework for LGPS.

- In response to issues raised it was stated that it would be determined whether a cost comparison analysis could be carried out to share with the Pension Board. It was again stated that the Investment Strategy of North Yorkshire Pension Fund would determine how the money was invested within the pool and, therefore, the Pension Board would have influence over that. The pool would determine the Managers that could be utilised in terms of that Investment Strategy, which was the major alteration to the current process. It was noted that, should the Pension Fund Committee wish to pursue a specific investment, then they would have to utilise the Fund Manager appointed through the pooling process.

- In terms of the Chief Executive for the pool it was emphasised that the Joint Committee would be the overarching body that would control the pool, with representatives from each of the Pension Funds being members of that. The Joint Committee would also provide influence on an operational level and would co-ordinate the operating company. It was noted that details of how this would operate were outlined in the attached Appendix.

- It was noted that the Pension Fund Committee had concerns around their contact with Fund Managers, through the pooling arrangements, and would prefer to have direct contact with those Fund Managers if possible.

- A Member suggested that the current necessity to divide into several funding pools would have been more cost effective if the Government had required a national funding pool from the LGPS. It was noted that, at this stage, Central Government's requirement was for funding pools of £25bn or more, which was how the pools had been established. The Member considered that the economies of scale required would have been more substantial should a national pool have been developed. It was noted that some other public sector pension schemes had national funds, however, it was emphasised that the LGPS held assets, whereas other public sector funds did not, and were controlled by Central Government.

- It was noted that the move towards pooling had initially been seen by the Government as a method of generating infrastructure investment, although, subsequently, it had been emphasised that this was not a necessity and there would be no compulsion to provide the combined funds for infrastructure projects. It was considered that, going forward, there was a likelihood that the infrastructure investment issue would re-emerge.

- It was noted that the initial costs for the establishment of the pool structure would be split between the participating Pension Funds, with each providing an equal amount for that. Members again expressed concern that this required additional funding from the North Yorkshire Pension Fund, with no short term return.

- It was noted that the second submission, providing more detail for the pooling arrangements, was due to be in place on 15 July, the day following the Pension Board meeting. Members asked that, in future, the Pension Board be provided with an opportunity to specifically comment on the issues in relation to the development of the pool, rather than be issued with final proposals, as appeared to be the case in relation to the second submission. Members considered that, despite acknowledging the time constraints in place, the Pension Board had not been provided with an appropriate opportunity to comment on those proposals.

- In respect of this it was noted that the next stage would be to develop a Shadow Joint Committee for the pool and that opportunity would be provided to the Pension Board to comment on how that was progressing, to provide views on the process and to be involved in the development of that. Officers emphasised that the Pension Board would be updated and informed of the progression of the pooling arrangements. It was requested that when the Government responded to the second submission that this was circulated to Pension Board Members.

**Resolved –**

(i) that a comparison should be undertaken to determine whether the investments by the North Yorkshire Pension Fund would have performed better as a separate entity rather than under the pooling arrangements to determine whether the process had been of benefit, and that the additional expenditure, as opposed to what was being spent now in administering the Fund, should also be outlined;

(ii) that full details of how the Pension Board would interact with the governance process for the Pool, when it was established, be presented to a subsequent meeting of the Pension Board;

(iii) that, in future, the Pension Board be provided with an opportunity to specifically comment on the issues in relation to the development of the Pool, rather than be issued with final proposals, as appeared to be the case in relation to the second submission;

(iv) that opportunity be provided to the Pension Board to comment on how the Shadow Joint Committee for the Pool was progressing, to provide views on the process and to be involved in the development of that;

(v) that when the Government responded to the second submission this be circulated to Pension Board Members; and

(vi) that the contents of the July submission be noted, the issues raised be noted and the actions outlined be undertaken accordingly.

The meeting concluded at 11.55 am.

**NORTH YORKSHIRE COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

**15 SEPTEMBER 2016**

# PERFORMANCE OF THE FUND'S PORTFOLIO FOR THE QUARTER ENDING 30 JUNE 2016

**Report of the Treasurer**

## 1.0 PURPOSE OF REPORT

1.1 To report the investment performance of the overall Fund, and of the individual Fund Managers, for the Quarter to 30 June 2016.

## 2.0 PERFORMANCE REPORT

2.1 The Fund Analysis & Performance Report (**Appendix 1**) produced by BNY Mellon Asset Servicing (MAS) provides a performance analysis of the North Yorkshire Pension Fund for the quarter ending 30 June 2016.

2.2 The report highlights the performance of the total Fund by asset class against the customised Fund benchmark. It also includes an analysis of the performance of each manager against their specific benchmark and a comparison of performance levels over time.

## 3.0 PERFORMANCE OF THE FUND

3.1 The absolute overall return for the quarter (+4.7%) was below the customised benchmark for the Fund (+5.7%) by 1.0%.

3.2 The 12 month absolute rolling return was +7.3%, 2.3% below the customised benchmark of +9.6%.

3.3 Absolute and relative returns over the rolling years to each of the last four quarter ends were as follows.

| Year End | Absolute % | Relative % |
|---|---|---|
| 30 June 2016 | +7.3 | -2.3 |
| 31 March 2016 | +0.4 | -0.7 |
| 31 December 2015 | +6.2 | +1.8 |
| 30 September 2015 | +5.7 | +0.8 |

3.4 The performance of the various managers against their benchmarks for the Quarter ended 30 June 2016 is detailed on **page 8** of the MAS report and in **Section 4** below. This performance is measured on a time-weighted basis and expressed as a +/- variation to their benchmark.

3.5 The Appendices used in this report have been designed to present a fuller picture of recent investment performance.

**Appendix 2** Fund Manager Performance over the three years to 30 June 2016 in absolute percentage terms from a starting point of "100"

**Appendix 3** Solvency graph – this shows the key Asset, Liability and Deficit figures in a simple graphical format

**Appendix 4** Solvency position (in % and £ terms) since the 2004 Triennial Valuation; this Appendix also shows in absolute terms the +/- in the value of assets and liabilities of the Fund

3.6 The separate reports of the Investment Adviser and Investment Consultant explain developments in the financial markets and in NYPF's investments, and also look ahead over the short, medium and longer term.

**4.0 FUND MANAGER PERFORMANCE**

4.1 In monetary terms, the absolute return of +4.7% in the Quarter increased the invested value of the Fund by £130m. This Quarter 2 managers/funds outperformed their respective benchmarks, one matched their benchmark and 9 underperformed against their respective benchmarks. At the end of the June 2016 quarter the value of the Fund was £178m above the value at the end of June 2015, an increase of 7.5%.

**Overseas Equities**

4.2 **Fidelity** produced a relative return in the quarter that matched the benchmark return of +7.4%. Relative performance over the year to June 2016 was -1.8% against the benchmark of 10.5%. Over the last 5 years the manager has exceeded the benchmark by +0.6% p.a. (gross of fees).

**Global Equities**

4.3 The Global Alpha fund managed by **Baillie Gifford** returned -1.8% for the quarter against a benchmark return of +8.8%. Relative performance over the longer term was -1.8% over 1 year and +1.8% p.a. over 5 years. Since inception in 2006, the Fund has outperformed the FTSE All World by 1.9% p.a.

The LTGG fund, also managed by **Baillie Gifford** produced a return for the quarter of +7.4% against a benchmark return of +8.8%. LTGG is a relatively concentrated fund and short term volatility is to be expected. Relative performance over the longer term was -0.7% over 1 year and +3.3% p.a. over 5 years.

The recently invested Global equity funds **Veritas** and **Dodge & Cox** returned +6.1% and +8.7% respectively against the MSCI All Country World benchmark of +8.8%. Both managers invest on a global unconstrained basis so this benchmark is for performance measurement purposes only. Since inception in April 2015 Veritas returned +6.9% and Dodge & Cox -2.5% against the benchmark return of -4%.

UK Equities

4.4 **Standard Life** produced an absolute return of -6.3% for the quarter. This represents an underperformance against a benchmark return of -3.4%. Relative performance for the year was a disappointing -8.3% against the benchmark of -5.8%. Relative annualised performance over the longer term was -1.5% pa over five years.

Fixed Income

4.5 **ECM** produced 0.8% relative against cash (+0.1%) for the quarter and also 0.8% relative for the year. Annualised performance for the 5 years to June 2016 was +1.9% relative against a benchmark of +0.5%.

4.6 The investment in Gilts with **M&G** slightly underperformed against the liability matching benchmark of +13.1% for the quarter to March 2016 by -0.2%. Performance for the year was +1.3% above the benchmark return of 21.1%, and annualised performance since inception in 2010 was +0.8% pa above the benchmark of +10.9%.

Property

4.7 The investments with **Hermes, L&G and Threadneedle** produced -0.1%, -3.9% and -5.4% respectively in relative terms, against the property index for each manager in the quarter to June 2016.

4.8 Over the year to June 2016 **Hermes** outperformed against the benchmark, returning in absolute terms +10.8% against a benchmark of 8.9%. **L&G and Threadneedle** underperformed returning +2.5% and +2.9% respectively in absolute terms against the benchmark of +7.2%.

Diversified Growth Funds

4.9 The Investment with the **Standard Life** Global Absolute Return Strategy (GARS) Fund produced a relative under-performance for the quarter of -1.2% against a cash benchmark of +0.1%. The **Newton Investments** Real Return Fund produced a relative over-performance for the quarter of 4.1% against the same cash benchmark.

4.10 Over the period since inception in March 2013, in absolute terms, Standard Life returned +2.3% pa against cash of +0.5% and a performance target of +5.5% and Newton +3.9% pa against cash of +0.5% and a performance target of +4.5%.

## 5.0 RISK INDICATORS

5.1 The Report (**pages 10 and 11**) includes three long-term risk indicators.

5.2 The Fund's annualised **Standard Deviation,** which is a reflection of volatility, was 7.5% for the rolling three year period to June 2016, 0.8% above the benchmark.

5.3 The **Sharpe Ratio** is a measure of how well the return compensates an investor relative to the risk taken. A higher Sharpe Ratio reflects a better return for a given level of risk or lower risk for a given level of return. The ratio for the Fund for the rolling three year period to June 2016 is +0.1% above the benchmark.

5.4 The **Tracking Error** figure reflects how closely a fund manager's actual return follows their respective benchmark. As at June 2016 the figure was 2.4%.

5.5 The **Information Ratio** is a measure of excess returns in relation to the benchmark and the consistency of those returns. A high IR could be derived from a high portfolio return, a low benchmark return and a low tracking error. For the period up to June 2016 the ratio for the Fund was +0.6%.

## 6.0 SOLVENCY

6.1 The **solvency position** is presented in **Appendices 3 and 4**. As at 31 June 2016 the estimated solvency was 81%. This is a 9% increase from the solvency figure as at 31 March 2016 and is also an increase of 8% from the 2013 Actuarial Valuation figure.

6.2 This increase in solvency is due primarily to changes in the assumptions used. In previous quarters liabilities have been valued on a Gilts basis as this was the approach used at the 2013 Triennial Valuation. For the June quarter, the provisional 2016 Triennial Valuation assumptions have been used which include the discount factor based on the Fund's assets rather than on Gilts.

## 7.0 REBALANCING

7.1 As discussed at the PFC meeting on 7 July 2016, an opportunity arose in the quarter ending 30 June 2016 to purchase additional units in the Threadneedle Property Fund. In total an additional £65m was invested with Threadneedle in the quarter increasing the investment in the TPEN fund to £145m. £25m of this was disinvested from Standard Life and the remaining £40m used up the Funds accumulated cash surplus, supplemented by a short term borrowing arrangement. This arrangement will need to be addressed by a small disinvestment (approximately £15m) from one of the Funds investment managers in September. Officers will discuss the most appropriate approach with the Fund's Investment Consultant and will update Members at the meeting.

## 8.0 PROXY VOTING

8.1 The report from PIRC is available on request summarising the proxy voting activity in the period April 2016 to June 2016. This report covers the votes cast on behalf of NYPF at all relevant company AGMs in the period and includes an analysis of voting recommendations at selected meetings and responses to company engagement.

| | |
|---|---|
| 9.0 | **RECOMMENDATION** |
| 9.1 | Members are asked to note the investment performance of the Fund for the Quarter ending 30 June 2016. |

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

6 September 2016

Appendix 1

BNY MELLON
ASSET SERVICING

# North Yorkshire Pension Fund

## 3 Months Ending 30 June 2016

*Fund Analysis & Performance Report*

## Contents

BNY MELLON ASSET SERVICING

## Market Review

**Market Briefing - Quarter Ended 30 June 2016**

**Market Summary**

During the 2nd quarter of 2016, returns were primarily positive with the only exception being Property, FTSE 250 and FTSE Small Cap. Fixed Income market alongside cash achieved positive returns.

**UK Equities**

In Quarter Two 2016 the FTSE 100 was the best performing index with a return of 6.5%, followed by the FTSE 350 with a return of 4.9%. The FTSE 250 was the weakest performing sector with a return of -2.9%. Over the one year period ending 30th June 2016, The FTSE 100 was the best performing index with a return of 3.8%, followed by the FTSE 350 with a return of 2.3%. The FTSE 250 was the weakest performing sector with a return of -4.6%.

Oil and Gas was the best performing industry sector with a return of 24.1% for the quarter. The weakest performing sector was Consumer Services with a return of -7.5%. Over the one year period returns ranged from 24.5% for Consumer Goods to –15.6% for Financials. Utilities was the second best performing sector with a return of 20.3%.

**Overseas Equities**

Most Overseas Equity markets achieved positive returns with the exception of Italy.

Within Europe, Norway was the best performing country with a return of 10.3%. This was followed by Belgium with a return of 9.5%. The weakest performing country was Ireland with a return of -7.4%. Over the one year period, Belgium was the strongest performing country with a return of 22.1%, and Greece the weakest with a return of -57.4%.

Outside the Europe, Brazil was the best performing country with a return of 23.0%. Brazil was followed by Canada with a return of 10.5%. Mexico was the weakest performing country with a return of 0.5%.

## Market Review

### UK Bonds

For UK-Bonds the second quarter returns were positive for all the sectors. UK-Gilts outperformed Non-Gilts with a return of 6.2% compared to 4.2%. Within Gilts, Long-dated Gilts was the strongest performing sector with a return of 11.8%. Short-dated Gilts was the weakest performing sector with a return of 1.1%.

Over the one year period ending 30th June 2016, UK-Gilts was the best performing sector with a return of 13.5% compared to the return of 8.9% for Non-Gilts. Within Gilts, Long-dated Gilts provided the strongest performance with a return of 24.1%, whilst the weakest came from Short-dated Gilts with 3.3%.

### Overseas Bonds

The second quarter saw positive returns for Overseas Bonds. Within Europe, Denmark was the best performing country with a return of 9.0%. Italy was the weakest performing country with a return of 5.3%. Outside Europe, Japan was the best performing country with a return of 21.4%. Australia was the weakest performing country outside Europe with a return of 7.7%.

Over the twelve month period, most European Bonds saw positive returns. Belgium provided the strongest performance with a return of 29.7%, followed by Denmark with a return of 29.3%. Outside Europe, the best performance came from the Japan with a return of 54.3%. The weakest performing country was Canada with a return of 19.0%.

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### UK Index-Linked Gilts

UK Index Linked-Gilts achieved a positive return of 9.8% for the second quarter of 2016. Within this sector, Long-dated Index-Linked Gilts provided the strongest performance with a return of 13.4%, whereas the weakest performance was provided by Short-dated Index-Linked Gilts with return of 1.4%.

Over the one year period to 30th June 2016, on an overall basis UK Index-Linked Gilts achieved a return of 14.8%. Over the same period, Long-dated Index-Linked Gilts was the strongest performing sector with a return of 20.7%, whereas Short-dated Index Linked Gilts showed the weakest performance, returning 1.9%.

### UK Cash and Property

Property recorded a negative return of -0.2% for the quarter. The overall return for the one year period ending 30th June 2016 was 5.4%. Cash achieved a return of 0.1% over the quarter and 0.4% over the last twelve months.

## Fund Performance, Risk and Allocation Highlights

During the second quarter of 2016, the fund returned 4.68% versus its benchmark of 5.71%, thereby underperforming by 1.03%. In terms of longer period performance, the fund has outperformed over 3 years by 1.55% p.a.

At asset class level, Alternative is the best performing sector which outperformed its benchmark by 1.00%. Property however underperformed the benchmark by 3.84%.

Over the quarter, three accounts out-performed their benchmarks. The best performance (excluding the Cash Account) was shown by Newton Diversified Manager which out-performed its benchmark by 4.06%.

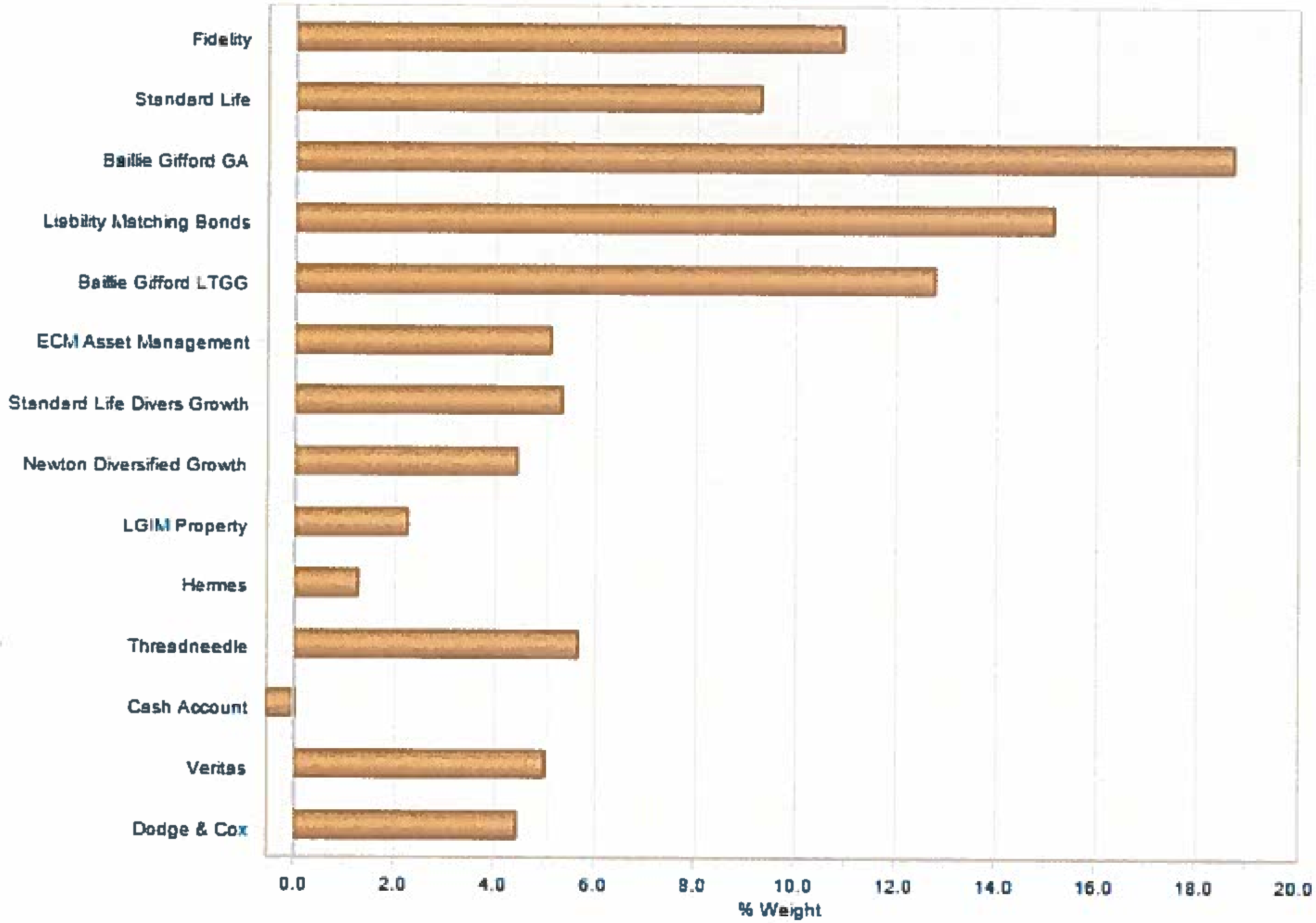
For asset allocation the fund is closely matched to the benchmark with the largest variances being in UK Equities and Alternatives where the fund is 4.01% and 1.78% underweight respectively.

# Fund Allocation

## Fund Allocation - Managers

BNY MELLON
ASSET SERVICING

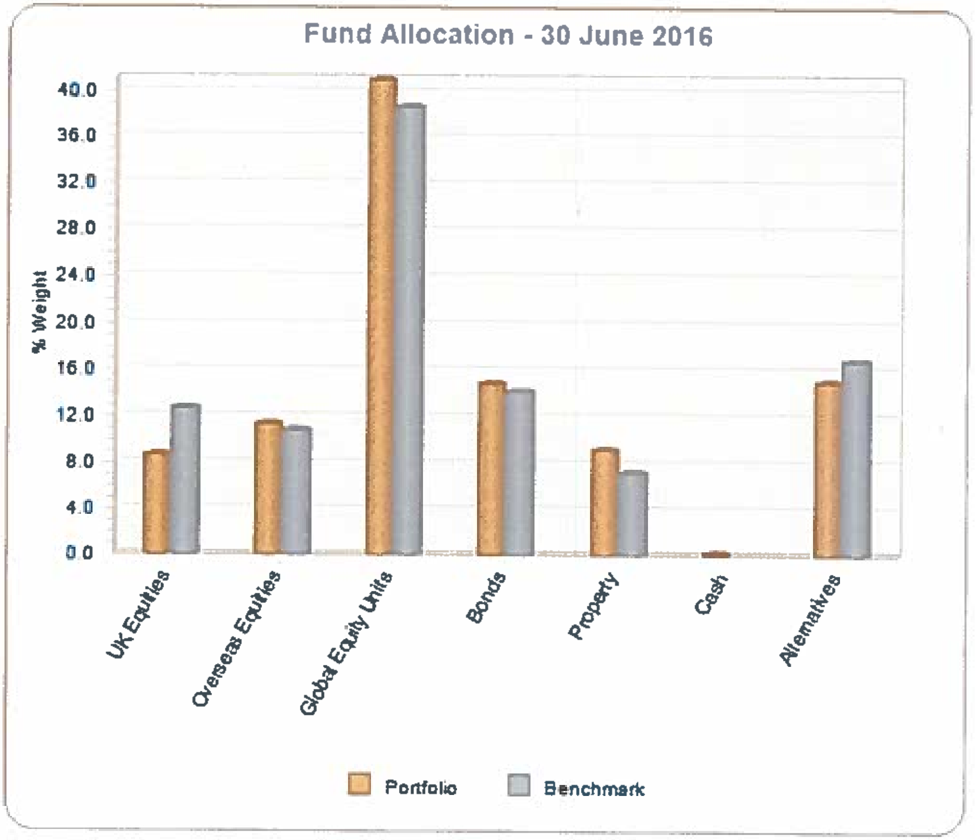
### Manager Allocation - 3 Months Ending 30 June 2016

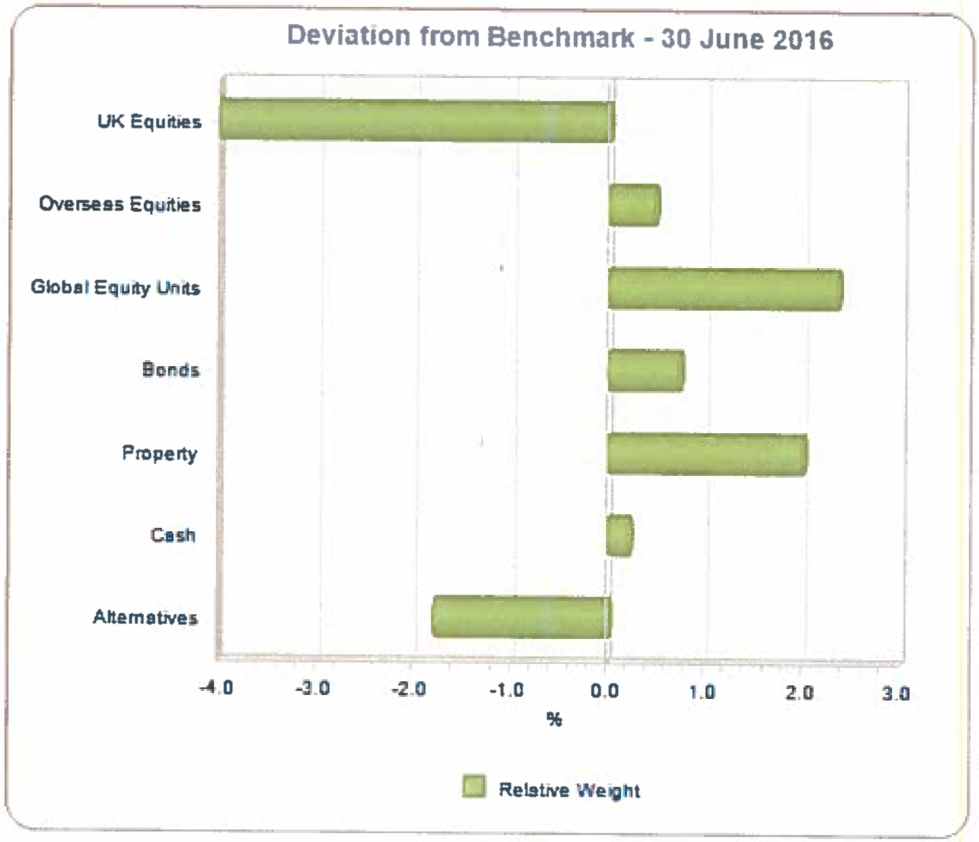



| Manager | Weight (%) |
|---|---|
| Fidelity | 10.95 |
| Standard Life | 9.32 |
| Baillie Gifford GA | 18.73 |
| Liability Matching Bonds | 15.16 |
| Baillie Gifford LTGG | 12.77 |
| ECM Asset Management | 5.12 |
| Standard Life Divers Growth | 5.33 |
| Newton Diversified Growth | 4.47 |
| LGIM Property | 2.26 |
| Hermes | 1.26 |
| Threadneedle | 5.68 |
| Cash Account | -0.54 |
| Veritas | 5.01 |
| Dodge & Cox | 4.47 |

## Fund Allocation - Relative Analysis






| | UK Equities | Overseas Equities | Global Equity Units | Bonds | Property | Cash | Alternatives |
|---|---|---|---|---|---|---|---|
| Portfolio | 8.59 | 11.27 | 40.97 | 14.83 | 9.21 | 0.21 | 14.92 |
| Benchmark | 12.60 | 10.80 | 38.60 | 14.10 | 7.20 | | 16.70 |
| Relative Weight | -4.01 | 0.47 | 2.37 | 0.73 | 2.01 | 0.21 | -1.78 |

# Fund Performance

## Fund Performance - Summary

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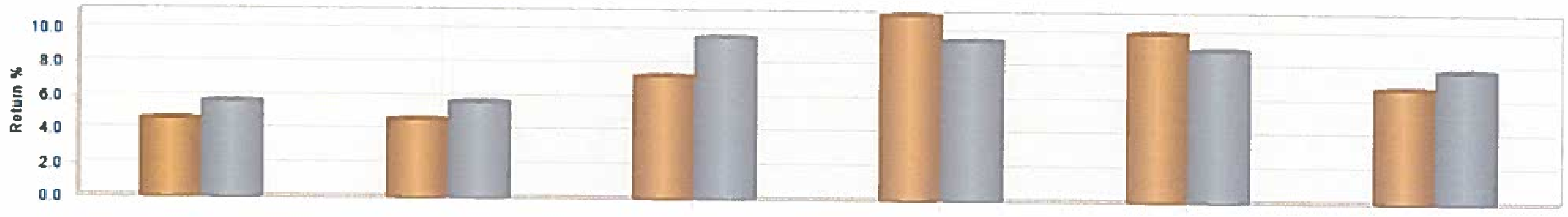
ASSET SERVICING

### Periodic Performance




| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception (Ann) |
|---|---|---|---|---|---|---|
| Portfolio | 4.68 | 4.68 | 7.31 | 11.00 | 9.95 | 6.76 |
| Benchmark | 5.71 | 5.71 | 9.57 | 9.45 | 9.03 | 7.80 |

Inception Date: 31 Jan 2002

Ann = Annualised

## Fund Performance - Segment Analysis

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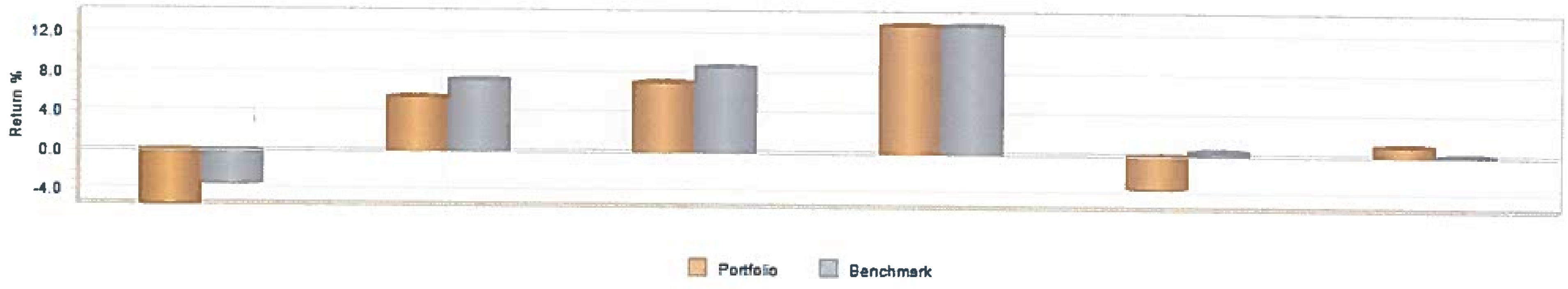
ASSET SERVICING

### Segment Performance - 3 Months Ending 30 June 2016




| | UK Equities | Overseas Equities | Global Equity Units | Bonds | Property | Alternatives |
|---|---|---|---|---|---|---|
| Portfolio | -5.45 | 5.61 | 7.21 | 12.99 | -3.30 | 1.13 |
| Benchmark | -3.45 | 7.42 | 8.79 | 13.13 | 0.54 | 0.13 |

## Fund Performance - Manager Overview

BNY MELLON
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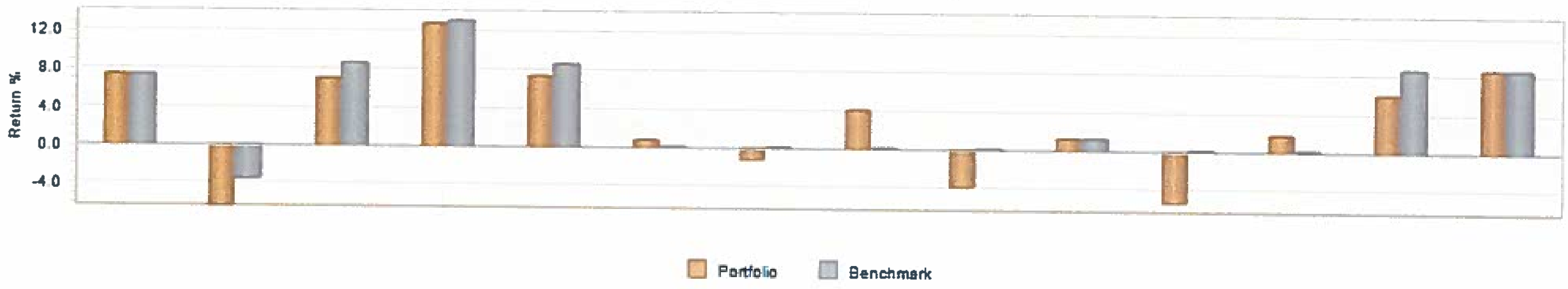
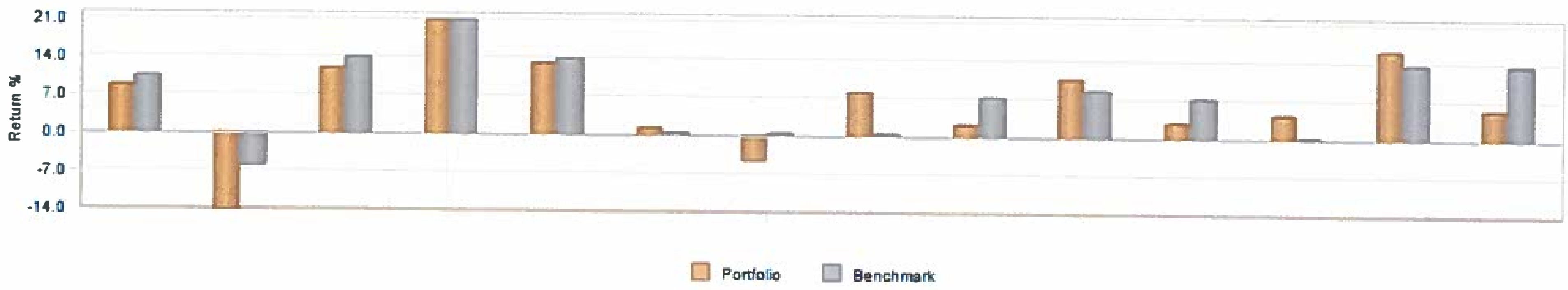
### Manager Performance - 3 Months Ending 30 June 2016




| | Fidelity | Standard Life | Baillie Gifford GA | Liability Matching | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers | Newton Diversified | LGIM Property | Hermes | Threadneedle | Cash Account | Veritas | Dodge & Cox |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Portfolio | 7.40 | -6.27 | 7.04 | 12.91 | 7.40 | 0.88 | -1.08 | 4.18 | -3.84 | 1.29 | -5.28 | 1.84 | 6.08 | 8.72 |
| Benchmark | 7.42 | -3.45 | 8.79 | 13.13 | 8.79 | 0.13 | 0.13 | 0.13 | 0.12 | 1.37 | 0.12 | 0.09 | 8.79 | 8.79 |

### Manager Performance - 1 Year Ending 30 June 2016

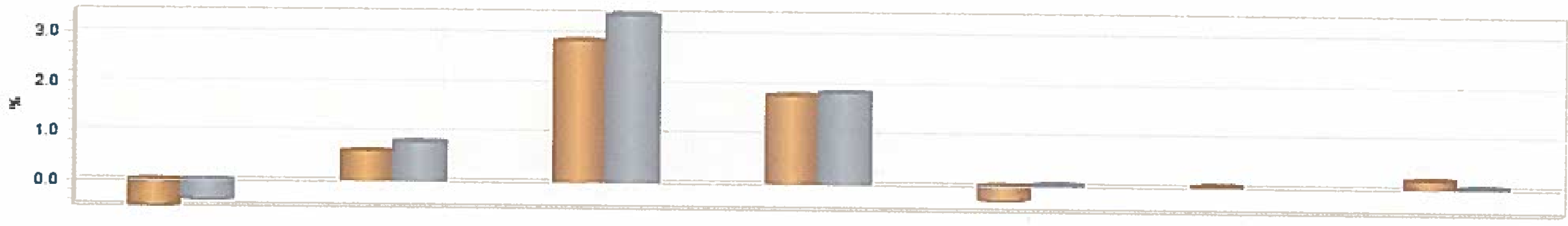



| | Fidelity | Standard Life | Baillie Gifford GA | Liability Matching | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers | Newton Diversified | LGIM Property | Hermes | Threadneedle | Cash Account | Veritas | Dodge & Cox |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Portfolio | 8.67 | -14.12 | 12.15 | 21.07 | 13.32 | 1.34 | -4.46 | 8.15 | 2.46 | 10.83 | 2.92 | 4.33 | 16.30 | 5.59 |
| Benchmark | 10.48 | -5.78 | 13.99 | 21.11 | 13.99 | 0.51 | 0.51 | 0.51 | 7.18 | 8.85 | 7.18 | 0.36 | 13.92 | 13.92 |

## Fund Performance - Contribution Analysis

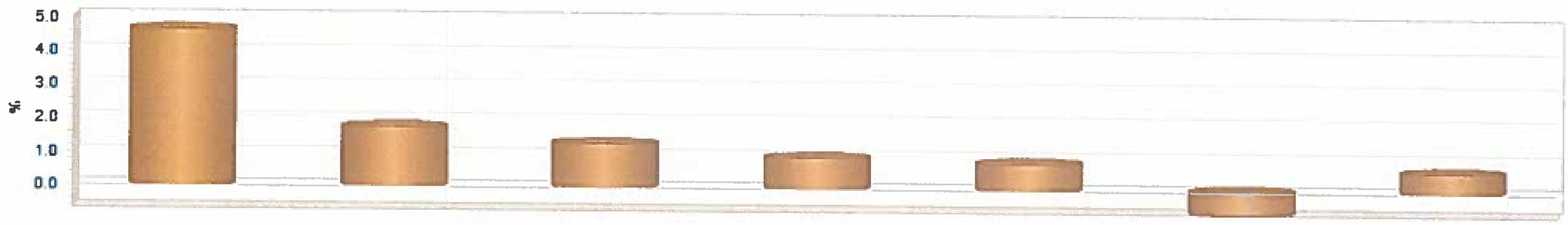


### Source of Contribution - Quarter to 30 June 2016




| | UK Equities | Overseas Equities | Global Equity Units | Bonds | Property | Cash | Alternatives |
|---|---|---|---|---|---|---|---|
| Portfolio | -0.52 | 0.62 | 2.88 | 1.79 | -0.28 | 0.02 | 0.18 |
| Benchmark | -0.40 | 0.80 | 3.39 | 1.86 | 0.02 | | 0.02 |

### Top 5 Manager Contribution - Quarter to 30 June 2016




| | Total Consolidation | M&G | Baillie Gifford GA | Baillie Gifford LTGG | Fidelity | Standard Life | Remaining Managers |
|---|---|---|---|---|---|---|---|
| Portfolio | 4.68 | 1.79 | 1.29 | 0.91 | 0.78 | -0.68 | 0.58 |

# Risk Profile

## Risk Profile - Historic Risk

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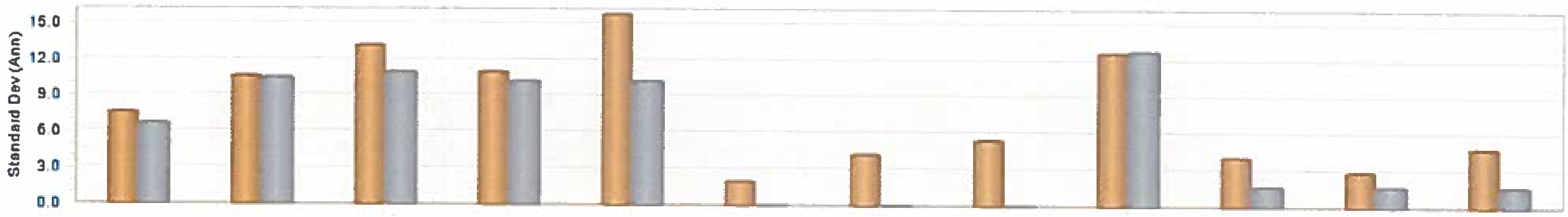
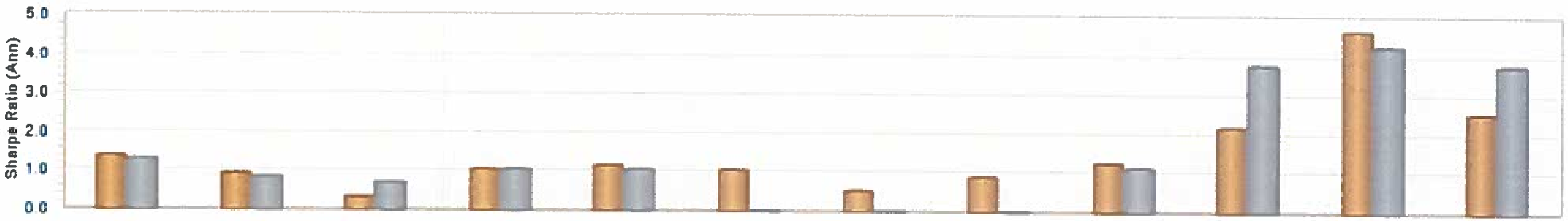
ASSET SERVICING

### Standard Deviation - 3 Years (Ann) to 30 June 2016




| | Total Consolidation | Fidelity | Standard Life | Baillie Gifford GA | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers Growth | Newton Diversified | M&G | LGIM Property | Hermes | Threadneedle |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Portfolio | 7.50 | 10.50 | 13.20 | 10.96 | 15.73 | 1.98 | 4.14 | 5.30 | 12.59 | 4.05 | 2.92 | 4.76 |
| Benchmark | 6.68 | 10.47 | 10.89 | 10.19 | 10.19 | 0.00 | 0.00 | 0.00 | 12.77 | 1.69 | 1.63 | 1.69 |

### Sharpe Ratio - 3 Years (Ann) to 30 June 2016




| | Total Consolidation | Fidelity | Standard Life | Baillie Gifford GA | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers Growth | Newton Diversified | M&G | LGIM Property | Hermes | Threadneedle |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Portfolio | 1.37 | 0.93 | 0.33 | 1.06 | 1.17 | 1.07 | 0.52 | 0.89 | 1.24 | 2.19 | 4.68 | 2.55 |
| Benchmark | 1.32 | 0.85 | 0.68 | 1.05 | 1.05 | 0.00 | 0.00 | 0.00 | 1.15 | 3.77 | 4.28 | 3.77 |

Ann = Annualised

## Risk Profile - Historic Risk

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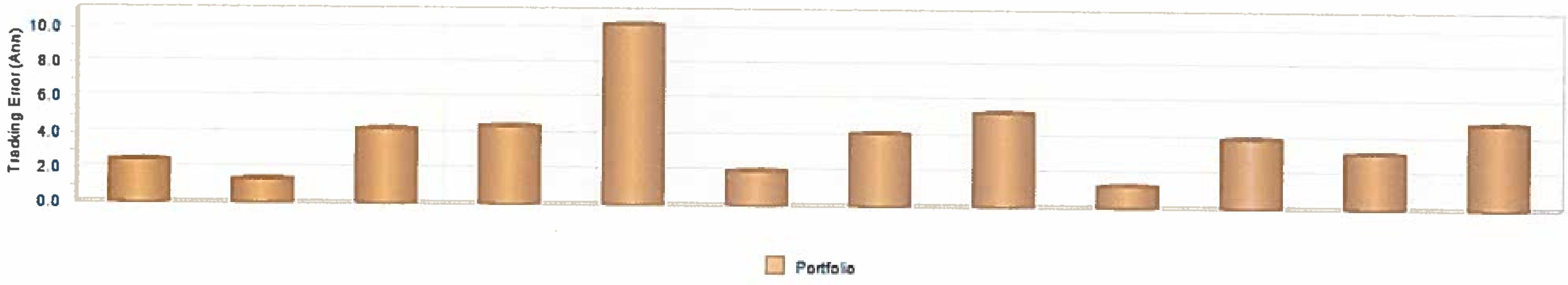
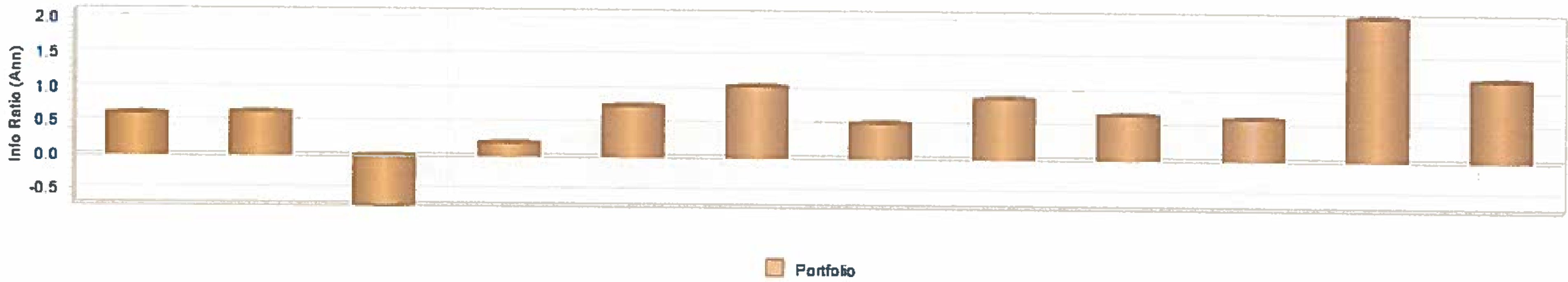
ASSET SERVICING

### Tracking Error - 3 Years (Ann) to 30 June 2016




| | Total Consolidation | Fidelity | Standard Life | Baillie Gifford GA | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers Growth | Newton Diversified | M&G | LGIM Property | Hermes | Threadneedle |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Portfolio | 2.41 | 1.35 | 4.22 | 4.38 | 10.29 | 1.98 | 4.14 | 5.30 | 1.28 | 3.96 | 3.18 | 4.86 |

### Information Ratio - 3 Years (Ann) to 30 June 2016




| | Total Consolidation | Fidelity | Standard Life | Baillie Gifford GA | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers Growth | Newton Diversified | M&G | LGIM Property | Hermes | Threadneedle |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Portfolio | 0.61 | 0.64 | -0.72 | 0.21 | 0.75 | 1.07 | 0.52 | 0.89 | 0.67 | 0.63 | 2.10 | 1.19 |

Ann = Annualised

## Risk Profile - Consistency Analysis



| Manager | Active Number of Months | Number of Positive Months | Consistency Rate (%) | Benchmark Consistency (%) | Outperformance (%) |
|---|---|---|---|---|---|
| **Total Consolidation** | **174** | **112** | **64** | **67** | **55** |
| Fidelity | 92 | 58 | 63 | 49 | 54 |
| Standard Life | 117 | 64 | 55 | 38 | 54 |
| Baillie Gifford GA | 117 | 72 | 62 | 43 | 55 |
| Amundi | 125 | 73 | 58 | | |
| Baillie Gifford LTGG | 118 | 70 | 59 | 42 | 53 |
| ECM Asset Management | 132 | 87 | 66 | 55 | 61 |
| Standard Life Divers Growth | 40 | 25 | 63 | 100 | 60 |
| Newton Diversified Growth | 40 | 22 | 55 | 100 | 55 |
| M&G | 55 | 31 | 56 | 62 | 55 |
| LGIM Property | 43 | 39 | 91 | 86 | 60 |
| Hermes | 52 | 40 | 77 | 82 | 56 |
| Threadneedle | 49 | 45 | 92 | 85 | 71 |
| Veritas | 15 | 8 | 53 | 60 | 53 |
| Dodge & Cox | 15 | 8 | 53 | 60 | 27 |

# Fund Profile

## Fund Profile - Movement of Funds



| Manager Name | Market Value 31-Mar-2016 (000's) | Net Contributions (000's) | Income (000's) | Gain/Loss (000's) | Market Value 30-Jun-2016 (000's) | % Change |
|---|---|---|---|---|---|---|
| **Total Consolidation** | **2,418,431.80** | **16,401.00** | **6,957.87** | **106,992.02** | **2,548,782.70** | **5.39** |
| Total Consolidation | 2,418,431.80 | 16,401.00 | 6,957.87 | 106,992.02 | 2,548,782.70 | 5.39 |
| Fidelity | 259,850.22 | 0.00 | 2,464.40 | 16,774.23 | 279,088.86 | 7.40 |
| Standard Life | 279,633.91 | -25,000.00 | 3,159.88 | -20,164.20 | 237,629.60 | -15.02 |
| Baillie Gifford GA | 445,906.15 | 0.00 | 0.00 | 31,388.16 | 477,294.31 | 7.04 |
| Baillie Gifford LTGG | 303,055.10 | 0.00 | 0.00 | 22,414.37 | 325,469.47 | 7.40 |
| ECM Asset Management | 129,394.54 | 0.00 | 0.00 | 1,141.73 | 130,536.27 | 0.88 |
| Standard Life Divers Growth | 137,312.27 | 0.00 | 0.00 | -1,483.72 | 135,828.55 | -1.08 |
| Newton Diversified Growth | 109,409.53 | 0.00 | 0.00 | 4,576.74 | 113,986.27 | 4.18 |
| M&G | 342,475.30 | -159.99 | 908.52 | 43,290.61 | 386,514.44 | 12.86 |
| LGIM Property | 60,028.86 | 0.00 | 0.00 | -2,305.12 | 57,723.74 | -3.84 |
| Hermes | 32,112.83 | -349.02 | 349.02 | 64.14 | 32,176.97 | 0.20 |
| Threadneedle | 84,911.03 | 65,000.00 | 0.00 | -5,149.23 | 144,761.80 | 70.49 |
| Cash Account | 9,135.07 | -23,089.97 | 76.04 | -1.86 | -13,880.72 | -251.95 |
| Veritas | 120,396.65 | 0.00 | 0.00 | 7,315.90 | 127,712.55 | 6.08 |
| Dodge & Cox | 104,729.56 | 0.00 | 0.00 | 9,130.27 | 113,859.83 | 8.72 |

# Manager Analysis

## Manager Analysis - Total Consolidation

BNY MELLON
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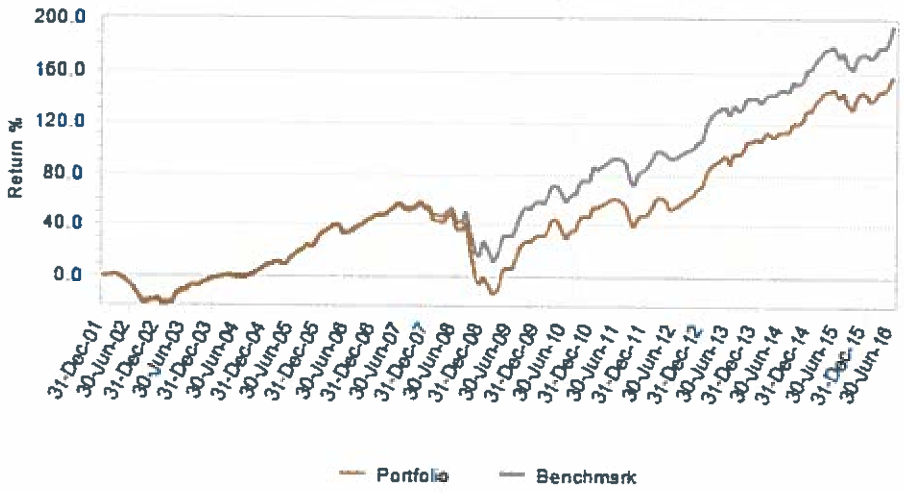
### Cumulative Performance (since inception)




Inception Date: 31 Jan 2002

**Portfolio Size and Mandate**

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 2,548,782,696 | Total Plan |

**Allocation - 30 June 2016**

| | UK Equities | Overseas Equities | Global Equity | Bonds | Property | Cash | Alternative |
|---|---|---|---|---|---|---|---|
| Portfolio | 8.59 | 11.27 | 40.97 | 14.83 | 9.21 | 0.21 | 14.92 |
| Benchmark | 12.60 | 10.80 | 38.60 | 14.10 | 7.20 | | 16.70 |

**Periodic Performance**

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
|---|---|---|---|---|---|---|
| Portfolio | 4.7 | 4.7 | 7.3 | 11.0 | 10.0 | 6.8 |
| Benchmark | 5.7 | 5.7 | 9.6 | 9.5 | 9.0 | 7.8 |

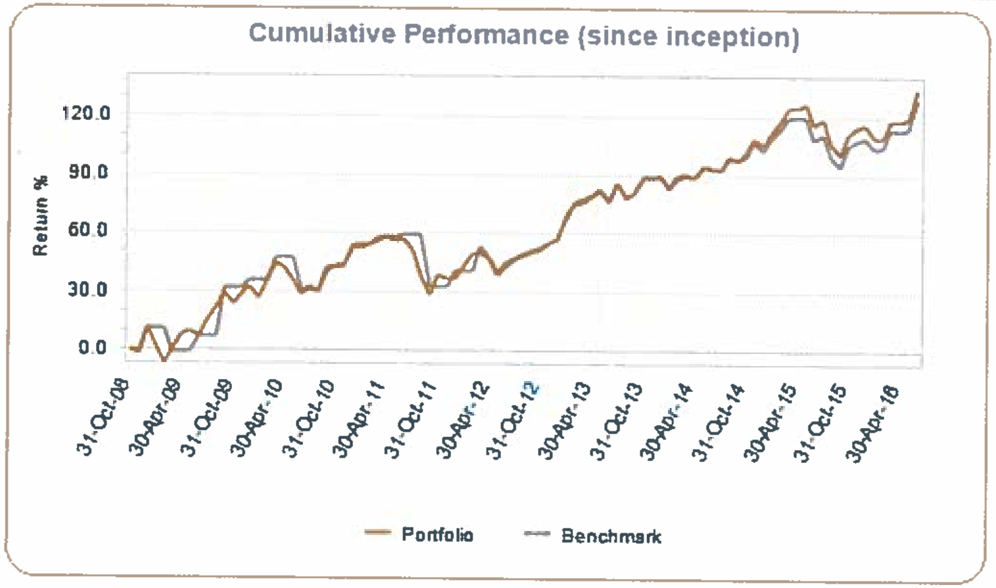
**Summary - 3 Months Ending 30 June 2016**

The fund's relative performance of the Quarter and 1 Year was -1.0% and -2.3% respectively.

**Risk Profile - 3 Years (Ann) to 30 June 2016**

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | 7.5 | 1.4 | 2.4 | 0.6 |
| Benchmark | 6.7 | 1.3 | | |

## Manager Analysis - Fidelity




Inception Date: 30 Nov 2008

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 279,088,858 | Global Equities |

### Allocation - 30 June 2016

| | UK Equities | Overseas Equities | Cash |
|---|---|---|---|
| Portfolio | 0.00 | 98.99 | 1.01 |
| Benchmark | | 100.00 | |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
|---|---|---|---|---|---|---|
| Portfolio | 7.4 | 7.4 | 8.7 | 10.1 | 8.3 | 11.8 |
| Benchmark | 7.4 | 7.4 | 10.5 | 9.2 | 7.7 | 11.5 |

### Summary - 3 Months Ending 30 June 2016

The manager's relative performance of the Quarter and 1 Year was 0.0% and -1.8% respectively.

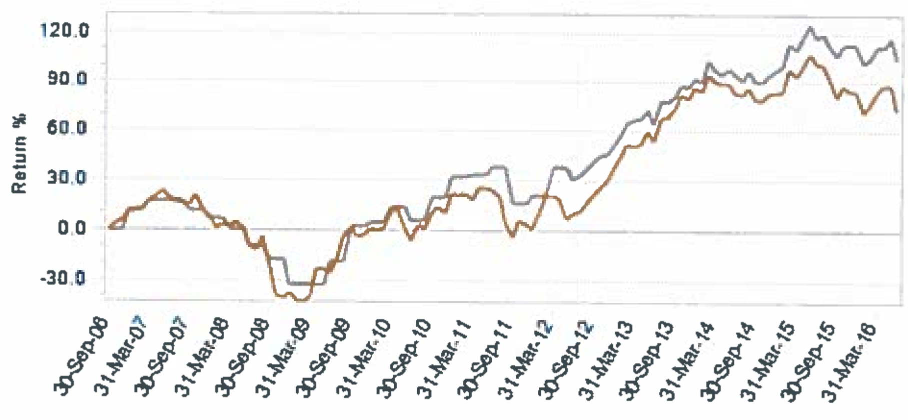
### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | 10.5 | 0.9 | 1.4 | 0.6 |
| Benchmark | 10.5 | 0.8 | | |

## Manager Analysis - Standard Life



### Cumulative Performance (since inception)




Inception Date: 31 Oct 2006

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 237,629,599 | UK Equities |

### Allocation - 30 June 2016

| | UK Equities | Overseas Equities | Cash |
|---|---|---|---|
| Portfolio | 92.13 | 4.57 | 3.30 |
| Benchmark | 100.00 | | |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
|---|---|---|---|---|---|---|
| Portfolio | -6.3 | -6.3 | -14.1 | 4.0 | 6.8 | 5.8 |
| Benchmark | -3.4 | -3.4 | -5.8 | 7.6 | 8.3 | 7.6 |

### Summary - 3 Months Ending 30 June 2016

The manager's relative performance of the Quarter and 1 Year was -2.9% and -8.3% respectively.

### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | 13.2 | 0.3 | 4.2 | -0.7 |
| Benchmark | 10.9 | 0.7 | | |

## Manager Analysis - Baillie Gifford GA

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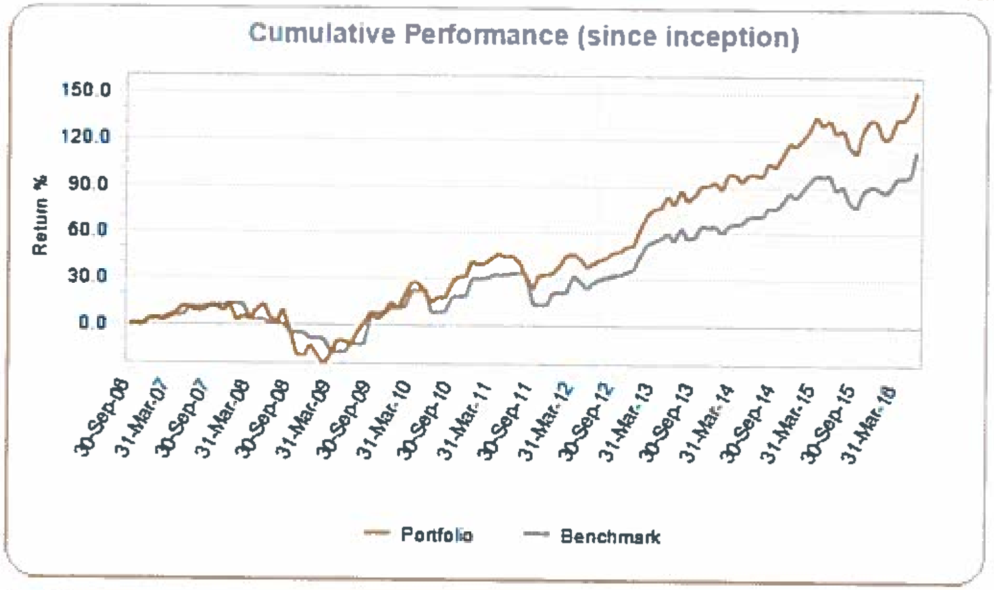


Inception Date: 31 Oct 2006

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 477,294,308 | Global Equities |

### Allocation - 30 June 2016

| | Global Equity Units | Cash |
|---|---|---|
| Portfolio | 100.00 | 0.00 |
| Benchmark | 100.00 | |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
|---|---|---|---|---|---|---|
| Portfolio | 7.0 | 7.0 | 12.2 | 12.2 | 11.7 | 10.0 |
| Benchmark | 8.8 | 8.8 | 14.0 | 11.3 | 9.9 | 8.1 |

### Summary - 3 Months Ending 30 June 2016

The manager's relative performance of the Quarter and 1 Year was -1.8% and -1.8% respectively.

### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | 11.0 | 1.1 | 4.4 | 0.2 |
| Benchmark | 10.2 | 1.1 | | |

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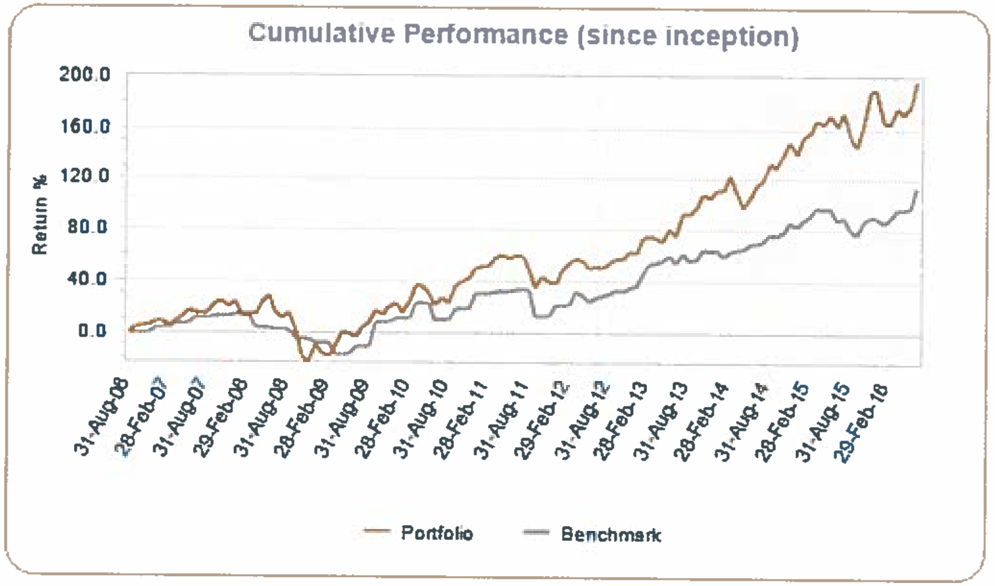
## Manager Analysis - Baillie Gifford LTGG




Inception Date: 30 Sep 2006

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 325,469,467 | Global Equities |

### Allocation - 30 June 2016

| | Global Equity Units |
|---|---|
| Portfolio | 100.00 |
| Benchmark | 100.00 |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
|---|---|---|---|---|---|---|
| Portfolio | 7.4 | 7.4 | 13.3 | 19.2 | 13.2 | 11.8 |
| Benchmark | 8.8 | 8.8 | 14.0 | 11.3 | 9.9 | |

### Summary - 3 Months Ending 30 June 2016

The manager's relative performance of the Quarter and 1 Year was -1.4% and -0.7% respectively.

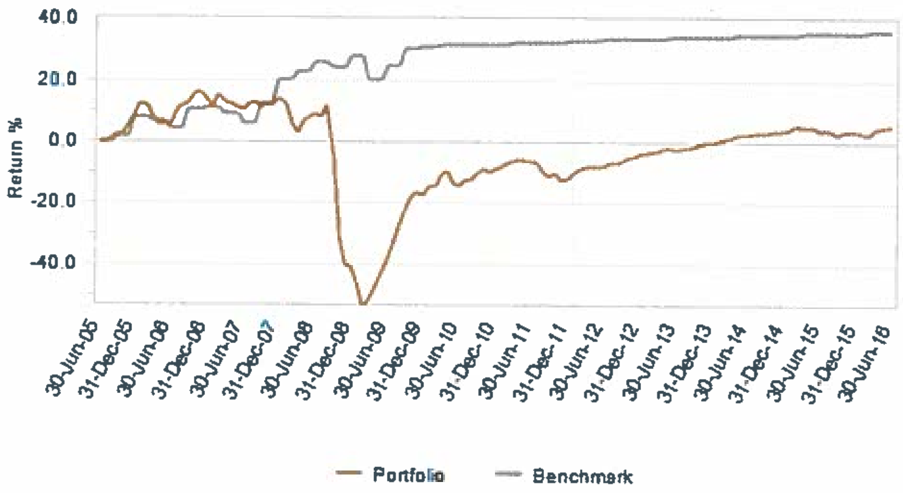
### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | 15.7 | 1.2 | 10.3 | 0.7 |
| Benchmark | 10.2 | 1.1 | | |

## Manager Analysis - ECM Asset Management

BNY MELLON
ASSET SERVICING

Cumulative Performance (since inception)




Inception Date: 31 Jul 2005

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 130,536,275 | Alternatives |

### Allocation - 30 June 2016

| | Alternatives |
|---|---|
| Portfolio | 100.00 |
| Benchmark | 100.00 |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
|---|---|---|---|---|---|---|
| Portfolio | 0.9 | 0.9 | 1.3 | 2.6 | 2.4 | 0.5 |
| Benchmark | 0.1 | 0.1 | 0.5 | 0.5 | 0.5 | 2.8 |

### Summary - 3 Months Ending 30 June 2016

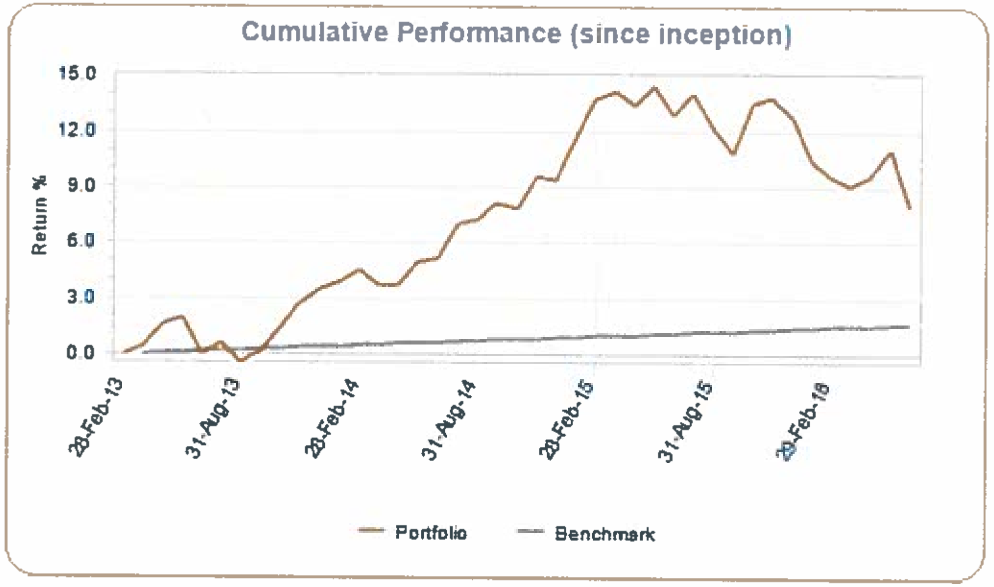
The manager's relative performance of the Quarter and 1 Year was 0.8% and 0.8% respectively.

### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | 2.0 | 1.1 | 2.0 | 1.1 |
| Benchmark | 0.0 | 0.0 | | |

BNY MELLON
ASSET SERVICING

## Manager Analysis - Standard Life Divers Growth




Inception Date: 31 Mar 2013

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
| --- | --- |
| 135,828,552 | Diversified Growth |

### Allocation - 30 June 2016

| | Alternatives |
| --- | --- |
| Portfolio | 100.00 |
| Benchmark | 100.00 |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
| --- | --- | --- | --- | --- | --- |
| Portfolio | -1.1 | -1.1 | -4.5 | 2.6 | 2.3 |
| Benchmark | 0.1 | 0.1 | 0.5 | 0.5 | 0.5 |

### Summary - 3 Months Ending 30 June 2016

The manager's relative performance of the Quarter and 1 Year was -1.2% and -5.0% respectively.

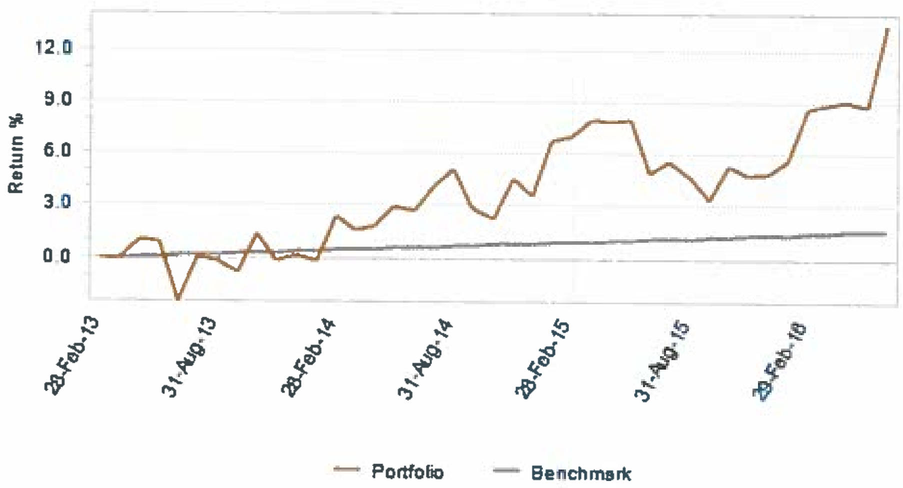
### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| --- | --- | --- | --- | --- |
| Portfolio | 4.1 | 0.5 | 4.1 | 0.5 |
| Benchmark | 0.0 | 0.0 | | |

## Manager Analysis - Newton Diversified Growth

BNY MELLON
ASSET SERVICING

### Cumulative Performance (since inception)




Inception Date: 31 Mar 2013

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 113,986,271 | Diversified Growth |

### Allocation - 30 June 2016

| | Alternatives |
|---|---|
| Portfolio | 100.00 |
| Benchmark | 100.00 |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
|---|---|---|---|---|---|
| Portfolio | 4.2 | 4.2 | 8.1 | 5.2 | 3.9 |
| Benchmark | 0.1 | 0.1 | 0.5 | 0.5 | 0.5 |

### Summary - 3 Months Ending 30 June 2016

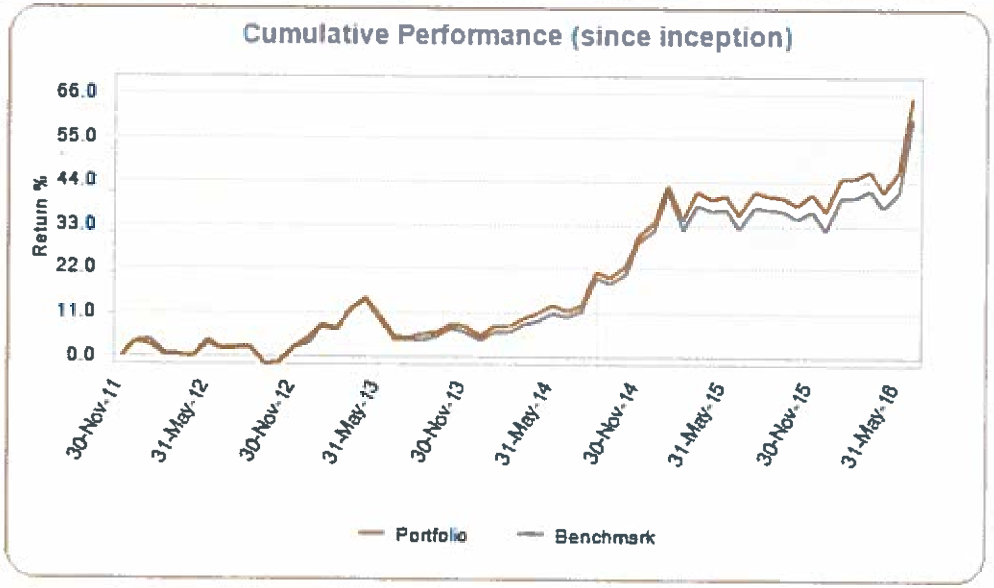
The manager's relative performance of the Quarter and 1 Year was 4.1% and 7.6% respectively.

### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | 5.3 | 0.9 | 5.3 | 0.9 |
| Benchmark | 0.0 | 0.0 | | |

## Manager Analysis - M&G

BNY MELLON ASSET SERVICING




Inception Date: 31 Dec 2011

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 386,514,443 | Global Bonds |

### Allocation - 30 June 2016

| | Bonds | Cash |
|---|---|---|
| Portfolio | 97.81 | 2.19 |
| Benchmark | 100.00 | |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
|---|---|---|---|---|---|
| Portfolio | 12.9 | 12.9 | 22.4 | 16.4 | 11.7 |
| Benchmark | 13.1 | 13.1 | 21.1 | 15.4 | 10.9 |

### Summary - 3 Months Ending 30 June 2016

The manager's relative performance of the Quarter and 1 Year was -0.2% and 1.3% respectively.

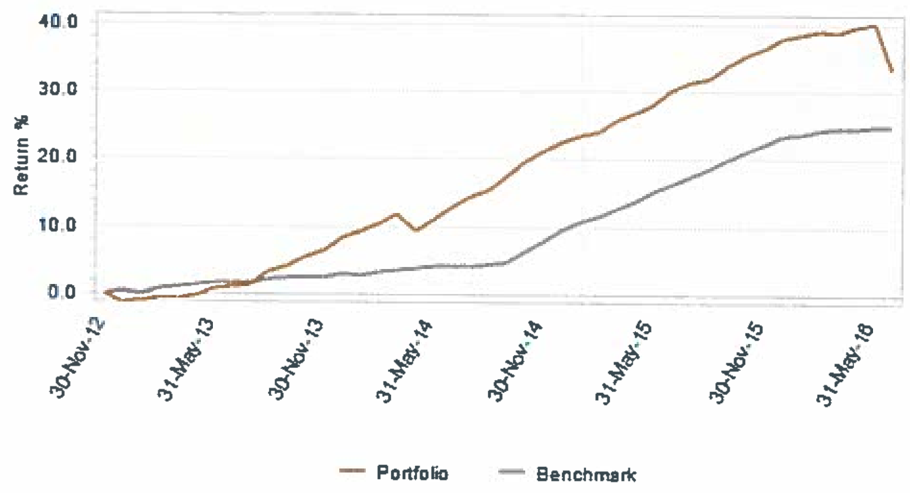
### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | 12.6 | 1.2 | 1.3 | 0.7 |
| Benchmark | 12.8 | 1.2 | | |

## Manager Analysis - LGIM Property

BNY MELLON
ASSET SERVICING

### Cumulative Performance (since inception)




Inception Date: 31 Dec 2012

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 57,723,743 | Property |

### Allocation - 30 June 2016

| | Property |
|---|---|
| Portfolio | 100.00 |
| Benchmark | 100.00 |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
|---|---|---|---|---|---|
| Portfolio | -3.8 | -3.8 | 2.5 | 9.7 | 8.4 |
| Benchmark | 0.1 | 0.1 | 7.2 | 7.1 | 6.4 |

### Summary - 3 Months Ending 30 June 2016

The manager's relative performance of the Quarter and 1 year was -3.9% and -4.7% respectively.

### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | 4.0 | 2.2 | 4.0 | 0.6 |
| Benchmark | 1.7 | 3.8 | | |

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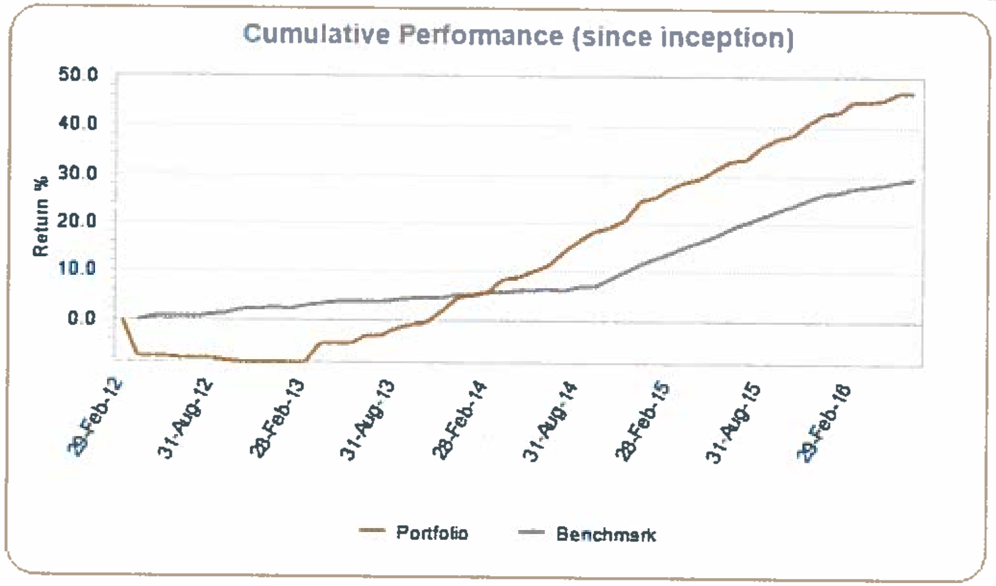
## Manager Analysis - Hermes

BNY MELLON
ASSET SERVICING




Inception Date: 31 Mar 2012

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 32,176,971 | Property |

### Allocation - 30 June 2016

| | Property |
|---|---|
| Portfolio | 100.00 |
| Benchmark | 100.00 |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
|---|---|---|---|---|---|
| Portfolio | 1.3 | 1.3 | 10.8 | 15.0 | 9.3 |
| Benchmark | 1.4 | 1.4 | 8.9 | 7.7 | 6.3 |

### Summary - 3 Months Ending 30 June 2016

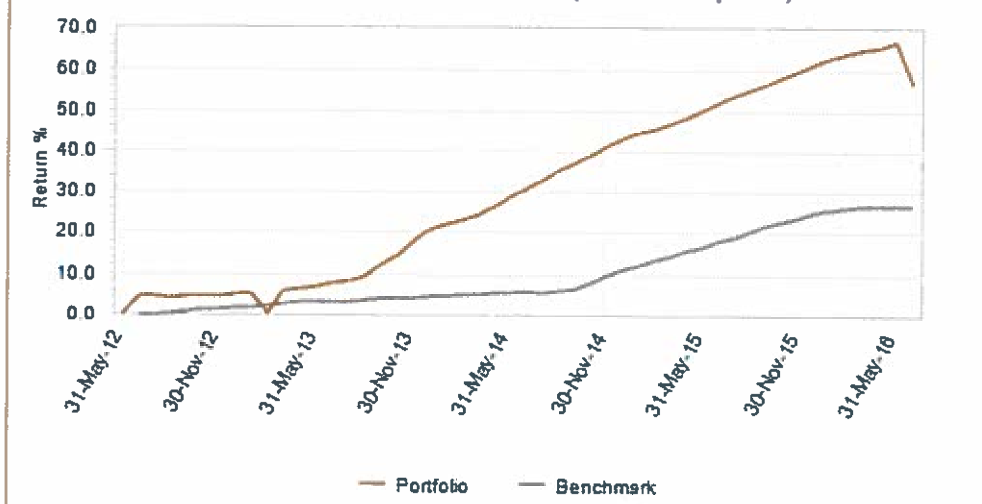
The manager's relative performance of the Quarter and 1 Year was -0.1% and 1.9% respectively.

### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | 2.9 | 4.7 | 3.2 | 2.1 |
| Benchmark | 1.6 | 4.3 | | |

## Manager Analysis - Threadneedle

BNY MELLON
ASSET SERVICING




Inception Date: 30 Jun 2012

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 144,761,798 | Property |

### Allocation - 30 June 2016

| | Property | Cash |
|---|---|---|
| Portfolio | 100.00 | 0.00 |
| Benchmark | 100.00 | |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
|---|---|---|---|---|---|
| Portfolio | -5.3 | -5.3 | 2.9 | 13.3 | 11.6 |
| Benchmark | 0.1 | 0.1 | 7.2 | 7.1 | 6.1 |

### Summary - 3 Months Ending 30 June 2016

The manager's relative performance of the Quarter and 1 Year was -5.4% and -4.3% respectively.

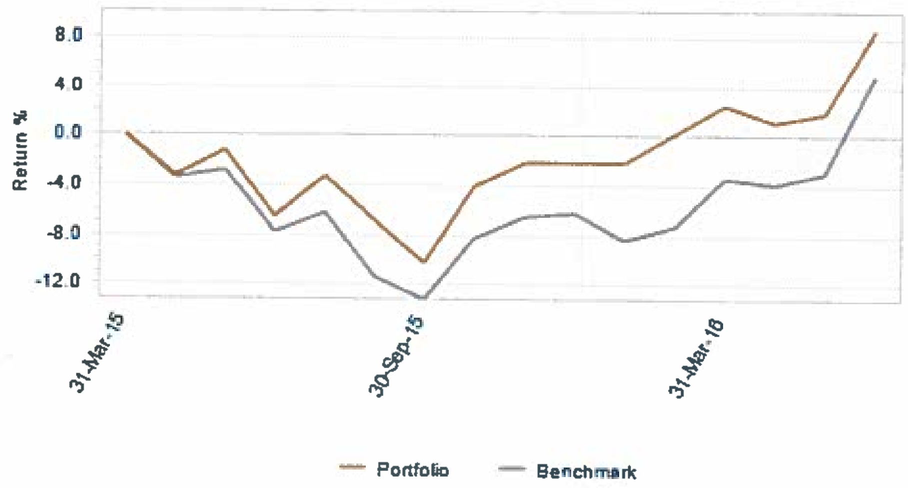
### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | 4.8 | 2.6 | 4.9 | 1.2 |
| Benchmark | 1.7 | 3.8 | | |

## Manager Analysis - Veritas

BNY MELLON ASSET SERVICING

### Cumulative Performance (since inception)




Inception Date: 30 Apr 2015

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 127,712,547 | Global Equities |

### Allocation - 30 June 2016

| | Global Equity Units |
|---|---|
| Portfolio | 100.00 |
| Benchmark | 100.00 |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | Since Inception (Ann) |
|---|---|---|---|---|
| Portfolio | 6.1 | 6.1 | 16.3 | 6.9 |
| Benchmark | 8.8 | 8.8 | 13.9 | 4.0 |

### Summary - 3 Months Ending 30 June 2016

The manager's relative performance of the Quarter and 1 Year was -2.7% and 2.4% respectively.

### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | | | | |
| Benchmark | | | | |

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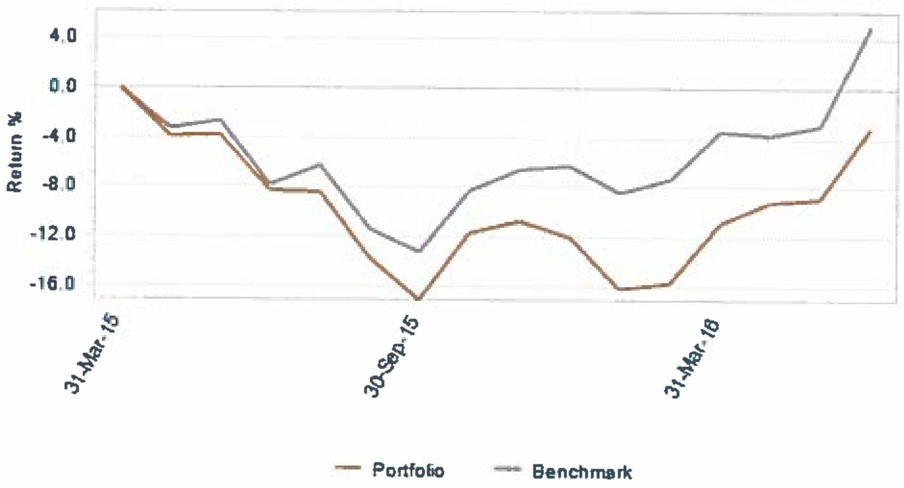
## Manager Analysis - Dodge & Cox

BNY MELLON
ASSET SERVICING




Inception Date: 30 Apr 2015

### Portfolio Size and Mandate

| Portfolio Size (GBP) | Portfolio Mandate |
|---|---|
| 113,859,827 | Global Equities |

### Allocation - 30 June 2016

| | Global Equity Units |
|---|---|
| Portfolio | 100.00 |
| Benchmark | 100.00 |

### Periodic Performance

| | Quarter | Fiscal Year To Date | 1 Year | Since Inception (Ann) |
|---|---|---|---|---|
| Portfolio | 8.7 | 8.7 | 5.6 | -2.5 |
| Benchmark | 8.8 | 8.8 | 13.9 | 4.0 |

### Summary - 3 Months Ending 30 June 2016

The manager's relative performance of the Quarter and 1 Year was -0.1% and -8.3% respectively.

### Risk Profile - 3 Years (Ann) to 30 June 2016

| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
|---|---|---|---|---|
| Portfolio | | | | |
| Benchmark | | | | |

# Appendix

## Appendix - Glossary



### Risk

**Standard Deviation** - Standard Deviation measures the variability (or volatility) of a fund's return over a specified time period.

**Tracking Error** - Tracking Error measures the variability of a fund's returns relative to its benchmark over a time period.

**Information Ratio** - Information Ratio is a measure of performance adjusted for the level of (active) risk.

**Sharpe Ratio** - Sharpe Ratio relates a portfolio's reward (determined as the portfolio's return minus risk free return) to the portfolio's variability (as measured by its standard deviation).

**Active Number of months** - Number of complete months of performance

**Number of Positive Months** - number of complete months the portfolio has produced a positive return

**Consistency Rate (%)** - Number of Positive Months/Active Number of Months

**Benchmark Consistency (%)** - Number of Positive Benchmark Months/Active Number of Months

**Outperformance (%)** - Percentage of months the portfolio has outperformed the benchmark

### Attribution

**Allocation Effect** - Measures the impact of decisions to allocate assets differently from the benchmark.

**Selection Effect** - Measures the impact of decisions of selecting securities different from those held in the benchmark.

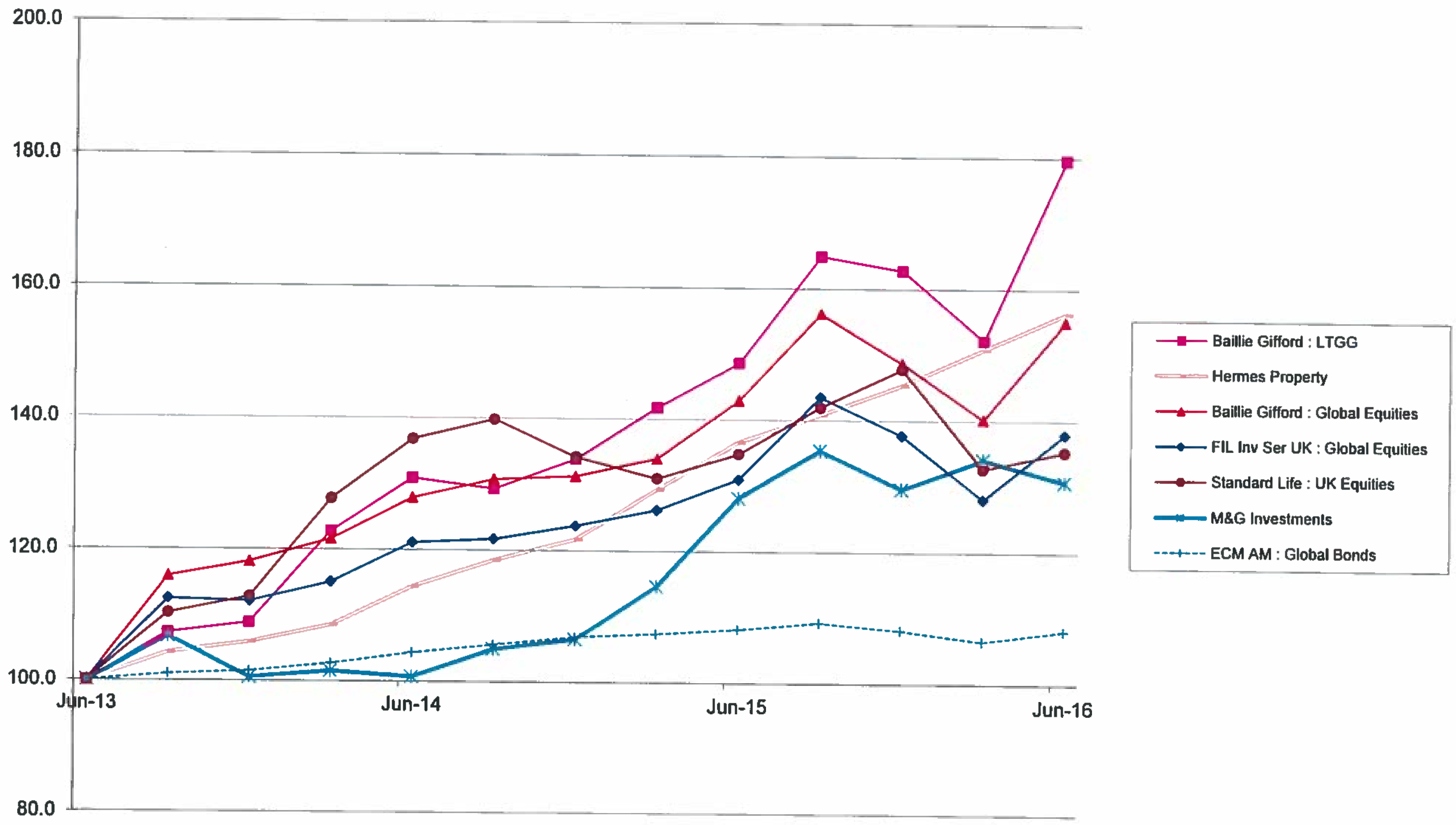
**Currency Effect** - Measures the impact of deviating from the benchmark currency position.

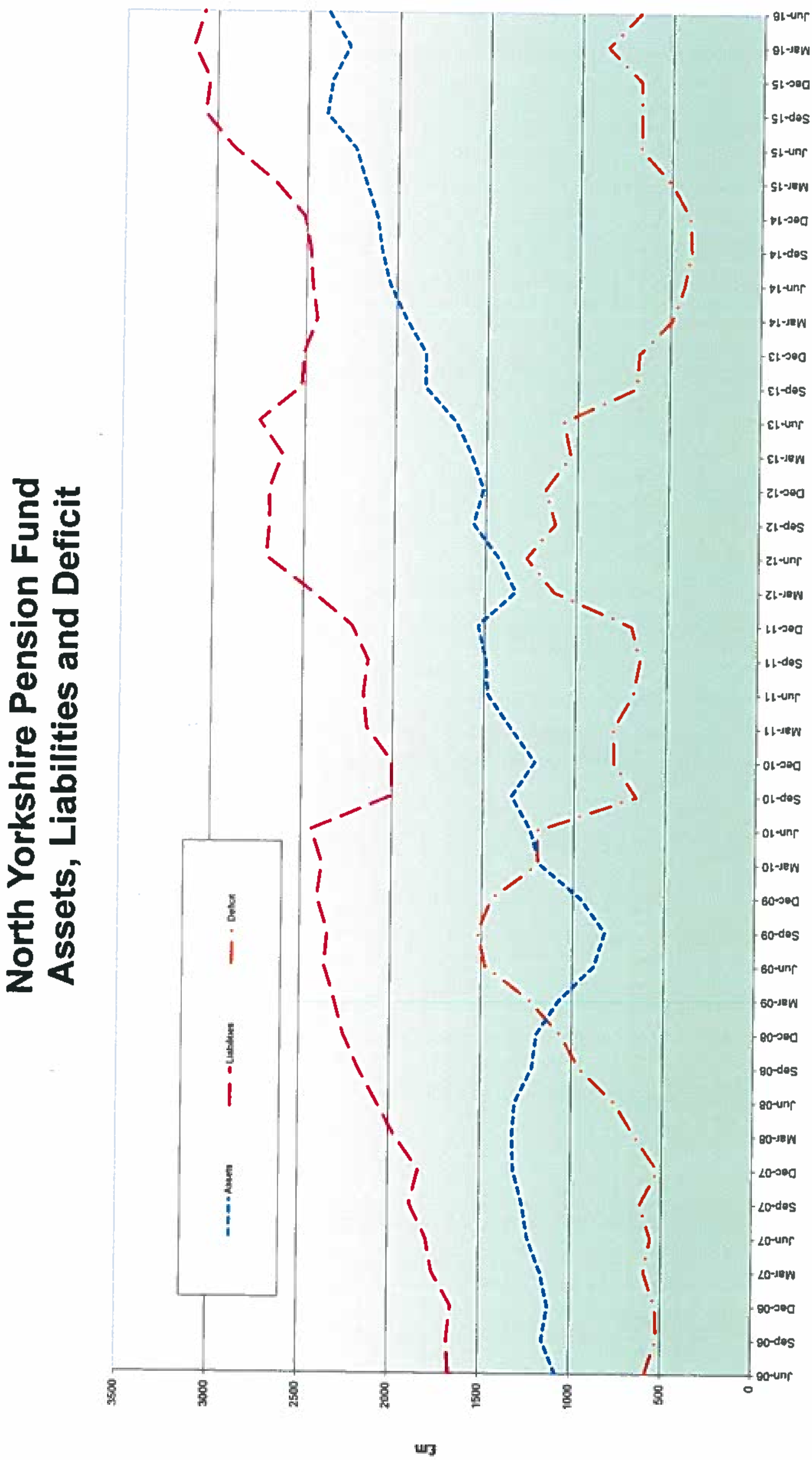
**Management Effect** - Measures the combined impact of allocation, selection and currency effects. At the total level, this represents the fund's relative performance against thebenchmark.

**Interaction Effect** - Measures the combined impact of an investment manager's selection and allocation decisions within a segment.

Appendix 2

## Investment Manager Performance - cumulative absolute performance 3 years to June 2016





North Yorkshire Pension Fund
Assets, Liabilities and Deficit
Assets
Liabilities
Deficit
£m
0
500
1000
1500
2000
2500
3000
3500
Jun-06
Sep-06
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
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Dec-15
Mar-16
Jun-16

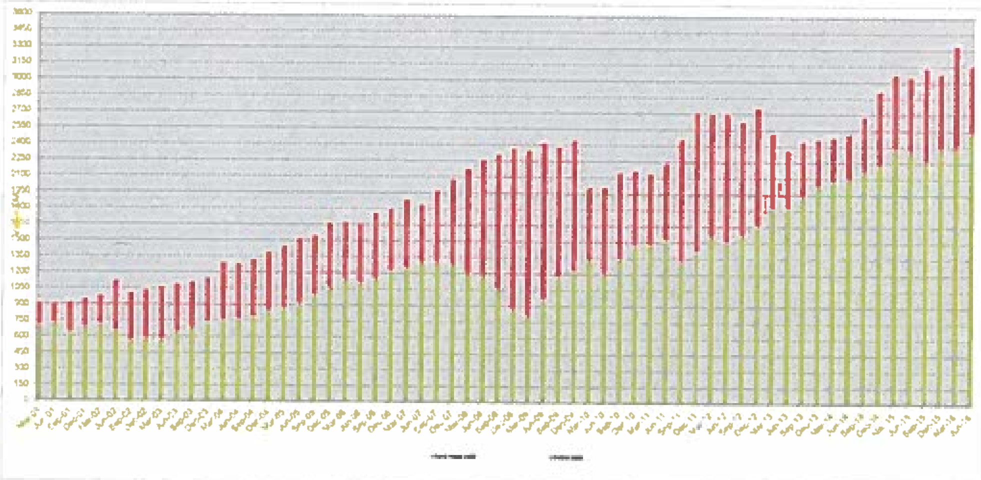
Appendix 4

## Actuarial Model of Quarterly Solvency Position

| Date | Solvency | Deficit £(M) | Fund Value £(M) | FTSE 100 |
|---|---|---|---|---|
| March 31, 2001 | 79% | 187 | 724 | 5,634 |
| June 30 2001 | 82% | 162 | 740 | 5 643 |
| September 30 2001 | 71% | 266 | 650 | 4 903 |
| December 31 2001 | 74% | 245 | 702 | 5 217 |
| March 31, 2002 | 75% | 245 | 732 | 5 272 |
| June 30 2002 | 60% | 450 | 670 | 4 656 |
| September 30 2002 | 56% | 435 | 574 | 3 722 |
| December 31, 2002 | 58% | 435 | 597 | 3 940 |
| March 31, 2003 | 55% | 478 | 584 | 3 613 |
| June 30 2003 | 61% | 423 | 662 | 4 031 |
| September 30 2003 | 63% | 408 | 695 | 4 091 |
| December 31 2003 | 65% | 402 | 747 | 4 477 |
| March 31, 2004 | 59% | 524 | 767 | [illegible] |
| June 30 2004 | 61% | 498 | 778 | 4 464 |
| September 30 2004 | 60% | 524 | 799 | 4 571 |
| December 31 2004 | 62% | 533 | 854 | 4 814 |
| March 31, 2005 | 61% | 563 | 879 | 4 894 |
| June 30 2005 | 61% | 592 | 924 | 5,113 |
| September 30 2005 | 65% | 542 | 1005 | 5 478 |
| December 31 2005 | 65% | 585 | 1075 | 5 619 |
| March 31 2006 | 69% | 523 | 1150 | 5 965 |
| June 30 2006 | 68% | 531 | 1121 | 5 833 |
| September 30 2006 | 66% | 595 | 1163 | 5 961 |
| December 31 2006 | 69% | 561 | 1233 | 6 221 |
| March 31, 2007 | 67% | 619 | 1266 | 6,308 |
| June 30 2007 | 72% | 522 | 1316 | 6 608 |
| September 30 2007 | 67% | 648 | 1322 | 6 467 |
| December 31 2007 | 63% | 763 | 1310 | 6 457 |
| March 31, 2008 | 56% | 956 | 1217 | 5 702 |
| June 30 2008 | 53% | 1064 | 1195 | 5 625 |
| September 30 2008 | 47% | 1235 | 1074 | 4 902 |
| December 31 2008 | 37% | 1481 | 885 | 4 434 |
| March 31 2009 | 35% | 1522 | 827 | 3 926 |
| June 30 2009 | 40% | 1447 | 972 | 4 249 |
| September 30 2009 | 50% | 1196 | 1187 | 5 134 |
| December 31, 2009 | 51% | 1204 | 1239 | 5 413 |
| March 31, 2010 | 67% | 659 | 1345 | 5,680 |
| June 30 2010 | 61% | 785 | 1219 | 4 917 |
| September 30 2010 | 63% | 791 | 1354 | 5 549 |
| December 31 2010 | 69% | 681 | 1483 | 5 900 |
| March 31 2011 | 70% | 648 | 1493 | 5 909 |
| June 30 2011 | 69% | 695 | 1538 | 5 946 |
| September 30 2011 | 54% | 1123 | 1335 | 5 129 |
| December 31, 2011 | 53% | 1277 | 1430 | 5 572 |
| March 31 2012 | 58% | 1121 | 1571 | 5 768 |
| June 30 2012 | 56% | 1176 | 1517 | 5 571 |
| September 30 2012 | 60% | 1040 | 1584 | 5 742 |
| December 31 2012 | 61% | 1079 | 1672 | 5 898 |
| March 31, 2013 | 73% | 679 | 1856 | 6,412 |
| June 30 2013 | 78% | 519 | 1840 | 6,215 |
| September 30 2013 | 80% | 490 | 1949 | 6 462 |
| December 31, 2013 | 83% | 427 | 2040 | 6 749 |
| March 31 2014 | 84% | 389 | 2089 | 6 598 |
| June 30 2014 | 84% | 397 | 2117 | 6 744 |
| September 30 2014 | 81% | 500 | 2179 | 6 623 |
| December 31 2014 | 77% | 671 | 2238 | 6 566 |
| March 31 2015 | 78% | 669 | 2399 | 6 773 |
| June 30 2015 | 78% | 674 | 2371 | 6 521 |
| September 30 2015 | 73% | 857 | 2277 | 6 062 |
| December 31 2015 | 78% | 682 | 2394 | 6 242 |
| March 31, 2016 | 72% | 923 | 2418 | 6,175 |
| June 30 2016 | 81% | 596 | 2549 | 6 504 |

Triennial valuation results highlighted in grey

## Movement in Assets and Liabilities



**NORTH YORKSHIRE COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

**15 SEPTEMBER 2016**

**LGPS POOLING ARRANGEMENTS**

**Report of the Treasurer**

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.

2.0 **BACKGROUND**

2.1 In May 2014 the Government started to look at pooling arrangements and launched a consultation, "LGPS, Opportunities for collaboration, cost savings and efficiencies". The focus of this consultation was on using common investment vehicles to pool assets, and on passive fund management of listed assets.

2.2 After a lengthy period of reflection the Government published LGPS investment reform criteria and guidance on 25 November 2015. The guidance was broken down into four areas:

A. Asset pools that achieve the benefits of scale
B. Strong governance and decision making
C. Reduced costs and excellent value for money
D. An improved capacity and capability to invest in infrastructure

Initial proposals were required by either individual authorities or as joint submissions by 19 February 2016, describing a commitment to pooling and progress towards formalising arrangements. Refined submissions were required by 15 July 2016.

2.3 At the PFC meeting 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 addition, NYPF submitted its own response. In reply, each BCPP Fund received a letter from Marcus Jones MP which described broad support for this initial proposal.

2.4 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

2.5 On 7 July 2016 the PFC approved the BCPP proposal for asset pooling in the LGPS, which was sent to Government on 15 July 2016. This proposal was based on legal advice from Squire Patton Boggs, financial advice from Deloitte and advice on investment manager fees from CEM Benchmarking.

2.6 The Members Steering Group, comprising of 12 of the 13 Chairs of the BCPP authorities (excluding the South Yorkshire Passenger Transport Fund) met on 3 occasions in the June quarter. These meetings were aimed at reviewing and agreeing the main points in the proposal and included an opportunity for a discussion with DCLG and HM Treasury.

## 3.0 NEXT STEPS

3.1 The Officer Operations Group, the composition of which mirrors the Members Steering Group, has met three times since 15 July 2016 to discuss the practicalities of options for putting pooling arrangements in place. Progress has been limited, pending receiving the Governments response, which is expected in September 2016. This response is required before much further work can be done and significant expenditure incurred. However, the clarity and timeliness of this response has become more uncertain following the Brexit vote and the resource implications this will have had on Government departments.

3.2 The Members Steering Group has not met since 15 July 2016, and is next due to meet on 29 and 30 September 2016. The agenda is currently being finalised, and officers will update Members at the meeting on the matters to be covered.

## 4.0 RECOMMENDATION

4.1 Members to note the contents of this report.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

6 September 2016

**Background documents:** None

**NORTH YORKSHIRE COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

**15 SEPTEMBER 2016**

# PRIVATE DEBT MANAGER APPOINTMENT

**Report of the Treasurer**

## 1.0 PURPOSE OF REPORT

1.1 To update Members on the procurement process for a private debt manager and to recommend the appointment of two managers.

## 2.0 BACKGROUND

2.1 At the PFC meeting on 26 November 2015 Members agreed to launch a search for one or two private debt managers to invest around 5% (£120m) of the Fund. During this meeting Members also approved bfinance's involvement in this procurement process. To remind Members, the banking sector has withdrawn to some extent from lending to SMEs. This has created a gap in the market place which a number of investment managers have stepped in to fill.

2.2 Officers met with bfinance on 6 April 2016 where they discussed the 23 managers that had submitted documentation following publication of the OJEU notice on 4 January 2016. To remind Members, the criteria of the search was as follows.

Strategy Focus:
- Corporate debt

Return Target:
- Net IRR of 9%+, regular income distributions of 6%+

Type of management:
- Buy-and-hold corporate private debt

Allocation:

- Open to most corporate debt types across senior, unitranche, subordinated and mezzanine investments
- Predominantly focused on northern European markets with limited exposure to southern European markets permitted (Spain, Italy, Portugal and similar)
- No specific requirements in terms of duration/maturity of the loans

Portfolio Diversification:

- Broadly diversified by asset types and sectors, concentration limits relevant to specific type of private debt

During the meeting with bfinance this list was reduced down to 12 managers by analysing the information against predetermined selection criteria.

2.3 In April and May 2016 bfinance carried out more detailed due diligence on these 12 managers. The analysis was discussed with officers on 9 May 2016 and a shortlist of four managers was agreed as being the most suitable for interview.

## 3.0 RECENT EVENTS

3.1 At the PFC meeting on 19 May 2016 Members agreed that Private Debt Evaluation Panel would comprise Cllr John Weighell, Cllr Roger Harrison-Topham, Cllr John Blackie and Cllr Patrick Mulligan.

3.2 Interviews hosted by bfinance were held with the four Managers that most closely met the Fund's criteria on the 15 July 2016. The Interview Panel consisted of Councillor Roger Harrison-Topham as Chair and Councillor John Blackie. Cllr John Weighell and Cllr Patrick Mulligan were unable to attend. The Treasurer, officers of the Fund, the Investment Consultant and Independent Advisor also attended the interviews.

3.3 The interviews concluded with an evaluation session led by bfinance. This session included a review of whether it is the right time to invest in this asset class, a discussion on the high margins that are available compared to bank rates, and fund liquidity. In conclusion, there was consensus that an investment of 5% of the Fund into Private Debt should go ahead, split equally between 2 managers. A discussion followed on which managers from this very strong field should be selected but no decision was reached by the time the meeting concluded.

3.4 On 18 August 2016 the Interview Panel met again to review the characteristics of each manager and Fund in more detail, to determine which provide the best fit for the Fund. The decision was that Permira and BlueBay represent the best opportunities for the Fund from this very strong field, having contrasting strategies in terms of target company size and the structure of the loans. The Investment Panel therefore decided to recommend to the Committee an investment of 5% of the Fund be made, split equally between these two investment managers.

## 4.0 NEXT STEPS

4.1 Members may wish to discuss the recommendation to invest in Private Debt at the meeting.

4.2 If Members agree to go ahead with investment in Private Debt then funds will need to be found from elsewhere. Officers have discussed options with the Investment Consultant and will provide a verbal update to Members at the meeting.

## 5.0 RECOMMENDATION

5.1 That Members agree to an investment of 5% of the Fund into the Private Debt asset class, split equally between Permira and Bluebay.

5.3 Members to determine the approach to disinvestment from other managers of the Fund to facilitate this new investment.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

6 September 2016