

## Agenda

**Meeting: Pension Fund Committee**

**Venue: The Brierley Room, County Hall,  
Northallerton, DL7 8AD**  
(location plan attached)

**Date: Thursday 14 September 2017 at 10 am**

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

### Business

1. **Minutes of the meeting held on 6 July 2017** (Pages 6 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 Steve Loach of Democratic Services (*contact details at the foot of page 1 of the Agenda sheet*) by midday on Monday 11 September 2017. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-

- at this point in the meeting if their questions/statements relate to matters which are not otherwise on the Agenda (subject to an overall time limit of 30 minutes);
- when the relevant Agenda item is being considered if they wish to speak on a matter which is on the Agenda for this meeting.

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. **Pension Board Annual Report** - Report of the Treasurer **(Pages 12 to 34)**
5. **NYPF Final Accounts and Annual Report** - Report of the Treasurer **(Pages 35 to 98)**
6. **MIFID II** – Report of the Treasurer **(Pages 99 to 123)**
7. **Member and Employer Issues** – Report of the Treasurer **(Pages 124 to 138)**
8. **GMP Reconciliation** - Report of the Treasurer **(Pages 139 to 143)**
9. **Budget/Statistics** - Report of the Treasurer **(Pages 144 to 146)**
10. **Performance of the Fund's Portfolio** – Report of the Treasurer **(Pages 147 to 193)**
11. **Pooling Arrangements** – Report of the Treasurer **(Pages 194 to 197)**
12. **Pension Board – Draft Minutes of the meeting held on 20 July 2017** - Copy of the draft Minutes enclosed - Verbal update by the Chair of the Pension Board. **(Pages 198 to 208)**
13. **Other business which the Chairman agrees should be considered as a matter of urgency because of special circumstances**

**NOTE:**

**There will be an Investment Strategy workshop at 10am on Friday 15<sup>th</sup> September 2017 in County Room 1 followed by lunch at 12:30pm.**

Barry Khan

Assistant Chief Executive (Legal and Democratic Services)  
County Hall  
Northallerton

**Notes:**

**Emergency Procedures for Meetings**

**Fire**

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

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

**Accident or Illness**

First Aid treatment can be obtained by telephoning Extension 7575.

# PENSION FUND COMMITTEE

## 1. Membership

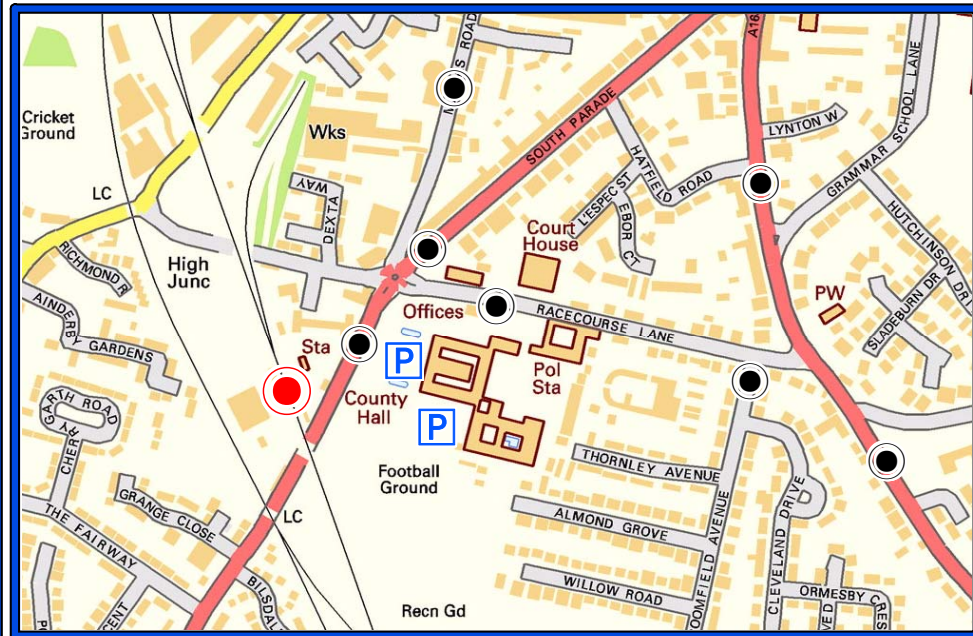
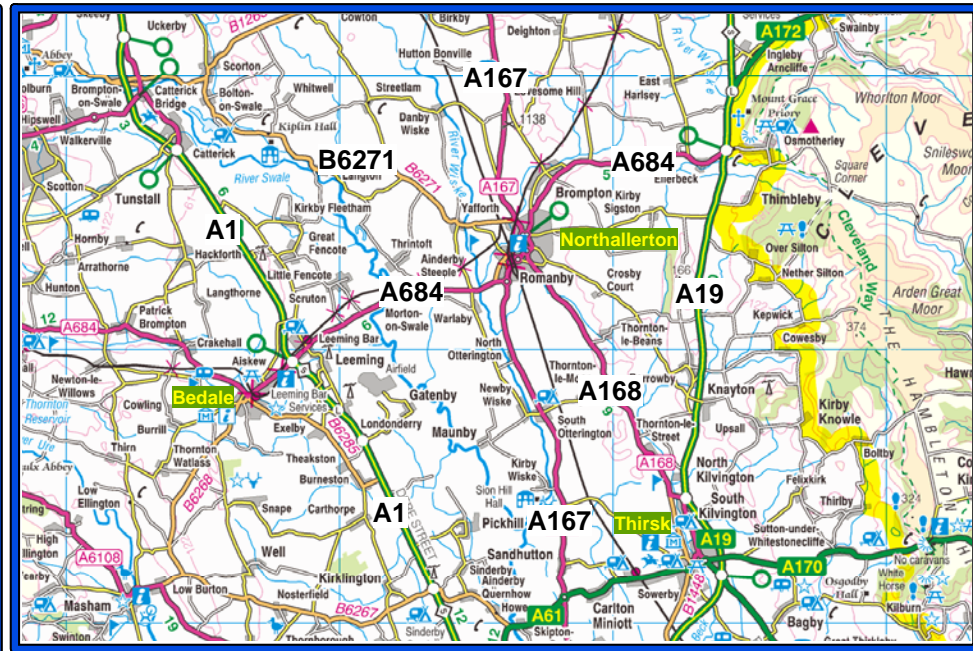
<b>County Councillors (8)</b>						
	<i>Councillors Names</i>				<i>Political Group</i>	
1	BLACKIE, John				NY Independents	
2	CHAMBERS, Michael MBE				Conservative	
3	LUNN, Cliff				Conservative	
4	MULLIGAN, Patrick				Conservative	
5	SOLLOWAY, Andy				Independent	
6	SWIERS, Helen (Vice-Chairman)				Conservative	
7	THOMPSON, Angus				Conservative	
8	WEIGHELL, John OBE (Chairman)				Conservative	
<b>Members other than County Councillors (1 and 2) Voting (3) Non-voting</b>						
1	CARR, David			City of York		
2	CLARK, Jim			North Yorkshire District Councils		
3	PORTLOCK, David			Chair of the Pension Board		
<b>Total Membership – (10)</b>				<b>Quorum – (3) County Councillors</b>		
Con	Lib Dem	NY Ind	Labour	Ind	Other Voting Members	
6	0	1	0	1	3	

## 2. Substitute Members

<b>Conservative</b>			
	<i>Councillors Names</i>		
1	BLADES, David		1
2	PEARSON, Chris		2
3			3
4			4
5			5
<b>NY Independents</b>			
	<i>Councillors Names</i>		
1			
2			
3			
4			
5			

## 3. Substitute Members

1	MERCER, Suzie	City of York
2	PEACOCK, Yvonne	North Yorkshire District Councils



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Northallerton National Rail Station



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### County Hall

Northallerton  
North Yorkshire  
DL7 8AD

Tel : 0845 8 72 73 74



North  
Yorkshire County Council

# North Yorkshire County Council

## Pension Fund Committee

Minutes of the meeting held on 6 July 2017 at County Hall, Northallerton commencing at 10.00 am.

**Present:-**

County Councillors John Weighell OBE (Chairman), John Blackie, Michael Chambers, MBE, Andy Solloway and Helen Swiers.

Councillor Jim Clark – North Yorkshire District Councils.

David Portlock – Chair of the Pension Board.

In attendance - County Councillor Carl Les (Leader of the Council).

Apologies - County Councillors Patrick Mulligan, Richard Musgrave and Angus Thompson; together with Councillor David Carr, City of York Council.

There were no members of the public present.

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

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**12. Minutes**

**Resolved -**

That the Minutes of the meeting held on 25 May 2017, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record, subject to the following alterations:-

Minute No. 10 – Performance of the Fund's Portfolio:-

Resolution b) – add “approximately” before “£100m” and remove “approximately” before “3.3%”; and

Add an additional resolution c) to read “that the Fund fully disinvests from ECM and the funds are transferred to M&G.”

**13. Declarations of Interest**

There were no declarations of interest.

**14. Public Questions or Statements**

There were no public questions or statements.

**15. Statement of Final Accounts 2016/17**

Considered -

The report of the Treasurer requesting Members to approve the draft Statement of Final Accounts for the financial year 2016/17.

The Treasurer explained that there had been an earlier production of the Statement of Final Accounts (SoFA) for the County Council, which, as administering authority, included the North Yorkshire Pension Fund accounts. The draft SoFA was presented to the Audit Committee on 22 June 2017, the final version was set to be considered by the Audit Committee on 7 September 2017. Next year the 2017/18 SoFA would need to be approved by Audit Committee by 31 July 2018, further accelerating the timetable. As a result it was necessary to change the approach for the Pension Fund Committee in its consideration of the North Yorkshire Pension Fund accounts.

He noted that, although the Committee were requested to approve the draft Statement of Final Accounts, the Audit Committee would be responsible for the official sign-off of the SoFA and, as there was no scheduled Pension Fund Committee meeting before the Audit Committee when the signing off would take place it was suggested that the Committee should delegate authority to the Chairman of the Pension Fund Committee to approve any required changes to the draft North Yorkshire Pension Fund accounts, in consultation with the Treasurer, prior to these being submitted to the Audit Committee. He emphasised that should the changes be of significance the information would be shared with all Members of the Pension Fund Committee and, if necessary, an additional meeting of the Committee would be arranged.

Members undertook a discussion of the report and the following issues and points were raised:-

- ◆ It was emphasised that the final North Yorkshire Pension Fund accounts would be considered by a meeting of the Pension Fund Committee, should that be through an additional meeting, due to extensive alterations being required, or for the accounts to be noted at the next scheduled meeting. It was noted that the accounts would be included in the Annual Report of the Pension Fund, which was due to be submitted to the next scheduled meeting of the Pension Fund Committee.
- ◆ It was noted that membership of the Committee was highlighted in the Annual Report of the Pension Fund.
- ◆ It was stated that a sub group of the Audit Committee was in place to give consideration to the SoFA and any changes in relation to the North Yorkshire Pension Fund accounts, resulting from the deliberations of that sub group, would be reported back to the Pension Fund Committee.

#### **Resolved -**

That the draft Statement of Final Accounts for 2016/17 be approved and authority be delegated to the Chairman to approve any required changes, following consultation with the Treasurer, in the period up to Audit Committee consideration of the SoFA.

## **16. Governance Arrangements**

Considered -

The report of the Treasurer seeking the Committee's approval of the following governance documents:-

- ◆ Investment Strategy Statement.
- ◆ Governance Compliance Statement.

- ◆ Risk Register.
- ◆ Communications Strategy 2017/18.
- ◆ Communication Policy Statement.
- ◆ Pensions Administration Strategy.

The Treasurer outlined how the Pension Fund Committee viewed and approved the governance documents for the North Yorkshire Pension Fund on an annual basis prior to the audit of the Annual Report. A number of the governance documents formed a part of the Annual Report of the Fund, and, in addition to those documents all other governance documents were also approved annually by way of good practice.

The completed Annual Report would be presented to the Pension Fund Committee on 14 September 2017 for recommendation of approval by the Audit Committee.

Details of each of the governance documents was included in the report, together with comments on the changes that had been made since they were last approved.

The Treasurer highlighted three areas in which progress would be sought during the coming year. He considered that the following would need development, in priority order:-

- ◆ Training Policy.
- ◆ Breaches Policy.
- ◆ Risk Policy.

The Chairman questioned why the Pension Fund would need a different risk strategy to that of the County Council. Members considered that the risk management of the Pension Fund could be underpinned by adopting the County Council's policy in terms of risk. It was recognised that the Pension Fund required a separate Risk Register, but considered appropriate that the policy and strategy of the County Council could be applied to the Pension Fund.

Members discussed the report and the appended governance documents and the following issues and points were raised:-

#### Covering Report

It was noted that reference to the Annual Report, to be presented to the Pension Fund Committee on 14 September 2017, being recommended for approval by the Audit Committee was incorrect, as it was Statement of Final Accounts that would be approved by Audit Committee and not the Annual Report.

It was noted that some employers had yet to submit information which had delayed the publication of Annual Benefits Statements, with a number failing to meet the statutory deadline. The Treasurer stated that he was addressing this situation directly with the appropriate officers of the employers concerned.

#### Investment Strategy Statement

A Member raised concerns regarding Item 6.4 of the Statement, particularly where it stated "it is expected that approximately 96% of NYPF's assets will be transitioned into the pool once suitable sub-funds are in place". The issue of how "suitable" would be interpreted was the concern, particularly as the suitability may be decided by the pool rather than North Yorkshire Pension Fund. A Member noted that this did not indicate how quickly the transition would take place. The Treasurer stated that the paragraph referred to the strategy in respect of transition rather than the implementation. He emphasised that the detailed workings of the transition plan would come to the Pension



Fund Committee before any action was undertaken in relation to that. He noted that the pool's Joint Committee would also have a role in the transition process.

Issues around the management of the performance of investments through the pool were discussed. It was reiterated that the specific Fund Managers utilised by the North Yorkshire Pension Fund, currently, may not be available through the pooling arrangements, however, opportunities to invest in specific funding classes would be available. It was asked whether a comparison could be undertaken to determine whether the performance of the Fund Managers within the pool were as effective as those undertaken separately by the Pension Fund. The Treasurer stated that consideration would be given to performance through the Joint Committee and Officers' Groups.

Members emphasised that there would need to be confidence in the arrangements before transition was undertaken. The Treasurer again stated that no transition would be undertaken until details had been discussed at meetings of the Pension Fund Committee.

It was considered appropriate that the term liquid assets be re-introduced into the paragraph, rather than just assets, as had been previously stated, as this would clarify the position of the North Yorkshire Pension Fund.

#### Governance Compliance Statement

The Treasurer noted that the role of the shareholder group should be added to the paragraph relating to LGPS pooling arrangements and it was considered appropriate that the Chairman of the Pension Fund Committee, in liaison with the Treasurer, be provided with delegated authority to change the wording of that paragraph to reflect this position.

#### Risk Register

A Member raised concerns that pooling arrangements had not been flagged up as a significant risk within the Register. He considered that the position should be made clearer. In response it was stated that pooling transition had been designated as significant risk and that this position was fully reflected in the Risk Register. It was also noted that there was no name provided alongside this risk category in terms of who was action manager for this. The Treasurer stated that his name would be inserted and he would be the action manager for that.

A Member referred to the risk relating to key personnel, agreeing that it was a risk area but asked whether the risk around training related to staff or Pension Fund Committee Members. In response the Treasurer stated that the matrix for the risk referred to staff, with a view to broadening the range of knowledge of finance staff to be able to support pensions' administration. He noted that this was underway.

A Member asked whether there was a potential for key personnel to be recruited to the pooling funds as they developed. The Treasurer stated that it would be less likely for internal pensions' staff to be recruited by the pools due to the specialist knowledge, particularly of the financial markets, required for those positions.

The Chairman stated that each of the pools was adopting a different approach and were operating independently. He highlighted how the different pools had become established and provided details of how the BCPP pool would operate with a mixture of internal/external managed funds. He noted that, in comparison to the size of the Funds, the set-up costs were relatively low, although he acknowledged that the figures in relation to those, in real terms, were substantial.

A discussion took place in relation to the risk around the Investment Strategy and whether that should be higher than indicated in the Risk Register. A Member suggested that the details within the Risk Register had been compiled, with full knowledge of the risks involved, by officers within the Pension Fund's Finance and Administration Teams and it was considered that it would be difficult for Members to change the risks outlined without that knowledge. Another Member countered that opinion suggesting that Pension Fund Committee Members were accountable in terms of the Investment Strategy and it was for them to challenge officers to ensure that the process was as robust as possible. In relation to the Investment Strategy risk it was noted that there were many factors that could affect this currently and that the Risk Register could be altered in line with how those risks developed, over time. The Treasurer stated that an Investment Strategy Workshop was due to be held shortly and that further consideration would be given to the risks involved with the Investment Strategy of the Pension Fund. It was considered that, for the time being, the risk could stay as stated within the Risk Register.

### Communications Strategy

It was asked whether easy to understand information around the process of obtaining pension figures was available on the North Yorkshire Pension Fund website. This was confirmed by officers and it was noted that surveys were undertaken to determine whether the information on the website was considered to be user friendly. It was noted that many people did not begin to consider the information required in relation to the determination of their pensions until coming up to retirement age, although it was noted that they did receive annual benefits' statements. The Treasurer noted that there had been some issues around the ease of use of the website and he would be working with Pensions Administrations Officers to address those.

### Communication Policy Statement

The Chairman of the Pension Board complimented those involved for the reference to the Pension Board within the Policy Statement. He asked whether Pension Board Members were provided with the newsletters highlighted within the policy as he, personally, had not seen these. In response it was stated that Pension Board Members would be provided with the newsletter and noted that these were produced on an annual basis.

### Pensions Administrations Strategy

It was asked whether there were any sanctions placed upon employers when North Yorkshire Pension Fund's request for member data was not complied with. In response, it was noted that there were sanctions in place for late payment and also in relation to the late supply of data. In respect of this, the Treasurer suggested that the paragraph could be amended to refer employers to paragraph 5.32 of the policy "charges to the employer" in cases where data was not provided within the timescale required. It was also suggested that employers be informed that the Pension Fund Committee considered that it would be appropriate to impose sanctions on employers in such circumstances.

Members welcomed Phillippa Cockerill, the new Head of Pensions Administration, and praised the Administration Service for its low cost and efficiency.

Members also welcomed John Raine, the Head of Technical Finance, who would be assisting with Pension Fund matters going forward.

**Resolved -**

That, subject to the alterations highlighted below, the report and the following governance documents be approved:-

- ◆ Investment Strategy Statement.
  - ◆ Governance Compliance Statement.
  - ◆ Risk Register.
  - ◆ Communications Strategy 2017/18.
  - ◆ Communication Policy Statement.
  - ◆ Pensions Administrations Strategy.
- (i) Covering report - paragraph 2.3 - remove "... for recommendation for approval by the Audit Committee";
- (ii) Governance Compliance Statement - an additional paragraph be added relating to the role of the shareholder group, with the wording for that delegated to the Chairman of the Pension Fund Committee, in liaison with the Treasurer of the Pension Fund;
- (iii) Investment Strategy Statement - paragraph 6.4 - re-insert "liquid", before "assets" in the second sentence to read "however it is expected that approximately 96% of NYPF's liquid assets ...";
- (iv) Risk Register - June 2017 review - summary - insert, GF - Treasurer of the North Yorkshire Pension Fund into the action manager box in respect of risk title 44/201 - LGPS Pooling Transition;
- (v) Pensions Administrations Strategy - paragraph 5.5 - add a sentence relating to the Pension Fund Committee applying sanctions to employers who did not comply with this paragraph, referring to the sanctions outlined in paragraph 5.32 of the Pensions Administrations Strategy.

Members were invited to an Investment Strategy Workshop taking place at 10 am on Friday 7 July 2017.

The meeting concluded at 2.45 pm.

SL/JR

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

14 SEPTEMBER 2017

## PENSION BOARD ANNUAL REPORT

## Report of the Treasurer

**1.0 PURPOSE OF REPORT**

- 1.1 To note the Pension Board Annual Report.

**2.0 PENSION BOARD ANNUAL REPORT**

- 2.1 The Terms of Reference for the Pension Board require that an Annual Report is submitted to the Administering Authority each year. This is the first Annual Report to be produced by the Board as in 2015/16 it had only been in existence for part of the year.
- 2.2 A draft Annual Report was presented to the Board in their meeting on 20 July 2017 where it was approved. Advice was sought from the Independent Professional Observer as to the content of this report and the recommended recipients of the report, in addition to PFC Members. The Final Report is attached as **Appendix 1**.
- 2.3 The Pension Board Annual Report will be submitted to the Executive and then presented to Full Council.
- 2.4 Members are asked to note the content of the Report and are invited to provide feedback.

**3.0 RECOMMENDATIONS**

- 3.1 Members are asked to note the Pension Board Annual Report for 2016/17 and are invited to provide feedback on the report.

GARY FIELDING  
Treasurer  
Corporate Director – Strategic Resources  
County Hall  
Northallerton  
1 September 2017

**NORTH  
YORKSHIRE  
LOCAL  
PENSION BOARD  
ANNUAL REPORT  
FOR PERIOD TO  
MARCH 2017**

NORTH YORKSHIRE LOCAL PENSION BOARD  
FIRST ANNUAL REPORT FOR PERIOD TO 31 MARCH 2017

**Introduction**

In June 2014 the Government published a consultation “The Local Government Pension Scheme (Amendment) Regulations 2014: draft Regulations on scheme governance”. These Regulations were essentially a crystallisation of the governance arrangements framework set out in the Public Service Pensions Act 2013.

The Regulations required Administering Authorities to each establish a Local Pension Board by 1 April 2015, being a formal body constituted by North Yorkshire County Council (the Administering Authority for the North Yorkshire Pension Fund), and the Board to be operational by 1 August 2015.

The Terms of Reference for the Pension Board were drafted in February 2015 to comply with the draft Regulations and guidance, in consultation with the Chair and Vice-Chair of the Pension Fund Committee and the Assistant Chief Executive (Legal and Democratic Services). The document was approved by the Council on 18 February 2015.

The Pension Board was established and its membership developed, and it held its first meeting on 30<sup>th</sup> July 2015.

In April 2016, the LGPS Scheme Advisory Board (SAB) was established as a statutory body encouraging best practice, increasing transparency and co-ordinating technical and statutory issues at a national level. Alongside this the role of the Pensions’ Regulator had been extended to cover public sector schemes, and guidance has been introduced in the form of the Regulator’s Code of Practice 14, which includes the reporting of statutory and regulatory breaches, for example the late payment of contributions and the issue of Annual Benefit Statements after the statutory deadline.

It was considered essential for the Pension Board to have an adequate period of activity and ‘settling in’ before producing its first report.

**Role**

The role of the local Pension Board is defined by sections 5(1) and 5(2) of the Public Service Pensions Act 2013 as follows:

1. To assist the Council as Administering Authority in its role as Scheme Manager to:
  - secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS;
  - secure compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator;
  - secure the effective and efficient governance and administration of the LGPS for the Pension Fund
  - assist in such other matters as the LGPS regulations may specify

2. To provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest

It is not the role of the Pension Board to be involved in the day to day running of the Pension Fund.

The operation of the Pension Board is open and transparent, its meetings are open to the public and all required details relating to the Pension Board, including minutes of meetings, are on the North Yorkshire County Council website.

### Membership of the Board

The Board consists of 9 members, 4 scheme member representatives, 4 employer representatives and an independent chair, and in the period to 31 March 2017 Membership was as follows:-

PORTLOCK, David	Chairman - Independent Member (Non-voting)
JORDAN, Mike (County Councillor)	Employer Representative – North Yorkshire County Council
CUTHBERTSON, Ian (Councillor)	Employer Representative – City of York Council
MACDONALD, Phil	Employer Representative – University of Hull
BRANFORD-WHITE, Louise	Employer Representative – Hambleton District Council
DRAKE, Ben	Scheme Member Representative - UNISON
SMETHURST, Stella	Scheme Member Representative - UNISON
SWITHENBANK, Mandy	Scheme Member Representative - GMB
GRESTY, Gordon	Scheme Member Representative – Retired Members

There had been an initial Employer Representative vacancy, following the establishment of the Board, which was filled by Phil MacDonald (University of Hull) on 14<sup>th</sup> April 2016.

### Terms of Reference

A copy of the Board's Terms of Reference is attached at **Appendix 1**. The Terms of Reference, agreed by the Administering Authority in February 2015, were reviewed at the Meeting of the Board held on 20<sup>th</sup> April 2017 and were re-affirmed as being fit for purpose.

## **Attendance at Meetings**

Meetings of the Board currently take place 4 times a year and are well attended.

Attendance at meetings was as follows:-

30<sup>th</sup> July 2015 – All Members in attendance  
1<sup>st</sup> October 2015 – All Members in attendance  
14<sup>th</sup> January 2016 – All Members in attendance  
14<sup>th</sup> April 2016 – (Phil MacDonald appointed) – All Members in attendance  
14<sup>th</sup> July 2016 – All Members in attendance  
6<sup>th</sup> October 2016 – Louise Branford-White absent, all other Members in attendance.  
26<sup>th</sup> January 2017 – Stella Smethurst and Gordon Gresty absent, all other Members in attendance  
20<sup>th</sup> April 2017 – Ben Drake and Phil MacDonald absent, all other Members in attendance

## **Attendance at Pension Fund Committee**

The Chair of the Board is an ex-officio, non-voting, Member of the Pension Fund Committee. Each ordinary Meeting of the Pension Fund Committee has an agenda item that provides an opportunity for the Chair of the Board to present feedback and the minutes of the previous meeting of the Board are submitted for information. The minutes of the Pension Fund Committee are also submitted to the Pension Board and, again, the Chairman provides feedback.

Members of the Pension Board regularly attend meetings of the Pension Fund Committee to observe proceedings.

## **Issues Considered**

The following have been considered by the Pension Board since its establishment:-

- North Yorkshire Pension Fund Annual Report for the year ended 31 March 2016
- External Audit Report on the North Yorkshire Pension Fund for the year ended 31 March 2016
- Risk Register
- Internal Audit reports
- LGPS Pooling arrangements
- CIPFA Seminar – “Local Pension Boards – one year on”
- External Audit report – “Maintaining an effective control framework”
- Review of Employer and Administering Authority Discretions (ongoing)
- Compliance with Publicity Regulations
- Pensions Regulator – letter re accuracy of records
- Annual Benefits Statements
- 2016 Triennial Valuation

Details in relation to the discussions on these issues can be found in the minutes for the meetings which are available on the North Yorkshire County Council website.



## Conflicts of Interest

The Board adopted a Conflicts of Interest Policy, attached as **Appendix 2**, at its inaugural meeting on 30<sup>th</sup> July 2015 and this is reviewed annually. The requirement to declare Conflicts of Interest is an item on every agenda for Board meetings. No conflicts were identified nor disclosed in the period to 31 March 2017.

## Skills and Development Activities

Board Members have undertaken a comprehensive range of training and development opportunities, as required by the Pension Regulator's Code of Practice. A skills audit was also undertaken to identify possible training requirements and areas where skills and knowledge needed development.

The Board adopted a Training Policy, attached as **Appendix 3**, at its inaugural meeting on 30<sup>th</sup> July 2015.

Details of the training and development undertaken by Board Members are provided in **Appendix 4**.

## Programme of Work

The Board has developed a programme of work which is reviewed and updated at every meeting of the Board. Details of the programme of work are provided in **Appendix 5**.

## Pension Board Costs and Budget for 2015/16 and 2017/18

The Board's costs for 2015/16 were as follows:

Chair's Allowance	£1,840
Travel	£351
Skills development	£13,154
<b>Total</b>	<b>£15,345</b>

The Board's costs for 2016/17 were as follows:

Chair's Allowance	£2,316
Travel	£601
Skills development	£300
<b>Total</b>	<b>£3,217</b>

The budget for 2017/18 is:

Chair's allowance	£2,500
Travel	£1,000
Skills development	£5,000

**Total** **£8,500**

The above costs are borne by the Pension Fund.

In addition to the expenditure detailed above, the Board receives assistance and support from the Council's Legal & Democratic Services and Pension Fund Officers. An estimate of the cost and value of this assistance and support has not been calculated.

### **Pension Board self-assessment**

The Board's terms of reference and guidance from the Pension Regulator's Code of Practice 14 require that the Board undertakes a review of its effectiveness and the knowledge and skills of Board members.

However, in view of the focus on Pooling over the last year or so, the consequential pressure on Scheme Manager and Pension Fund Officers and the departure of senior Officers, a review of Board effectiveness has been delayed. It is intended to undertake a review over the next few months.

### **Equality Impact Review**

An Equality Impact Review is not required as there are no relevant decisions to be taken.

**David Portlock**  
**Independent Chair of the Local Pension Board**  
**July 2017**

# Pension Board of the North Yorkshire Pension Fund

## Terms of Reference and Delegated Authorities

### 1) Role of the Local Pension Board

The role of the local Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is

- to assist North Yorkshire County Council (NYCC) as Administering Authority in its role as Scheme Manager
- to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS
- to secure compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator
- to secure the effective and efficient governance and administration of the LGPS for the North Yorkshire Pension Fund (NYPF, or the Fund)
- in such other matters as the LGPS regulations may specify
- to provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest

The terms “Administering Authority” and “Scheme Manager” are used interchangeably in the Regulations but are separately defined in this document (see section 18). NYCC as the Administering Authority has ultimate responsibility for the Fund and has delegated powers to manage the Fund to the Pension Fund Committee (PFC).

These Regulations provide that the Pension Board has the general power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions. The Pension Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board will also help ensure that the NYPF is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator, with due regard to guidance issued by Government, the Pensions Regulator and the National Scheme Advisory Board.

The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively, but not less than four times in any year. The Pension Board will determine the precise timing of its own meetings, which will take place at suitable intervals between PFC meetings so that PFC activity relevant to the Board can be considered and responses to recommendations reviewed prior to the next meeting of the PFC.

## 2) Membership and Appointment Process

The Pension Board shall consist of 9 members and be constituted as follows:

- i) 4 scheme member representatives, of whom
  - a. 2 shall represent and be drawn from active members of the Fund
  - b. 1 shall represent and be drawn from pensioner and deferred pensioner members of the Fund
  - c. 1 shall represent and be drawn from either the active or deferred/pensioner members of the Fund
- ii) 4 employer representatives, of whom
  - a. 1 shall be nominated by NYCC who shall meet the requirements of the relevant regulations in relation to avoidance of conflict with the County Council's role as Administering Authority
  - b. 1 shall be nominated by the City, Borough and District Councils, the Police and Fire bodies and the National Parks which are employers within the Fund
  - c. 1 shall be nominated by all other employers within the Fund
  - d. 1 shall be nominated by any employer other than NYCC
- iii) 1 independent member, who shall be appointed as Chair of the Pension Board

Elected Members and officers involved in the management and administration of the Fund are not permitted to become Pension Board members.

The Administering Authority will contact employers and members of the Fund to inform them of the Pension Board arrangements and to canvass interest whenever appointments to the Pension Board are required. Active, pensioner and deferred pensioner members will be eligible to nominate themselves as "scheme member representatives". Individuals put forward by the Fund's employers, whether or not those individuals are members of the Fund, will be eligible to stand as "employer representatives".

The position of independent member will be advertised publically. The Administering Authority will seek an independently minded individual with a track record of dealing with governance issues. Following receipt of nominations/applications the Administering Authority will arrange an independent as possible appointment process. This process will include assessing information supplied by candidates in support of their nomination/application and may be supplemented by interviews as appropriate.

Members in all categories will only be appointed to the Pension Board by the Administering Authority if they either meet the knowledge and skills requirements set out in the relevant regulations and guidance (see Section 7) or commit to do so within 3 months of the appointment date.

Members of the Pension Board will serve for a term of 4 years following which they may either retire from the Board or seek nomination for an additional term. The term of office may otherwise come to an end

- for scheme member representatives if they cease to be a member of the relevant group
- for employer representatives who are councillors if they cease to hold office as a councillor

- for employer representatives who are not councillors when they cease to be employed by their nominating employer
- for a councillor member who is appointed to the PFC
- for a scheme member or employer representative who is appointed to a role with responsibility for the management or administration of the Fund
- where there is a conflict of interest which cannot be managed in accordance with the Pension Board's Conflicts of Interest Policy
- where a member fails to attend meetings, undertake training or otherwise comply with the requirements of being a Pension Board member

Each Pension Board member should endeavour to attend all Board meetings during the year and is expected to attend at least 3 meetings each year. The chair of the Board is also expected to attend the quarterly meetings of the PFC.

Given the nature of the Pension Board as a supervisory body and the need for appropriate knowledge and skills and the clear avoidance of conflicts of interest, substitute members are not permitted. In the event of consistent non-attendance by any Board member, then the tenure of that membership should be reviewed by the other Board members in liaison with the Administering Authority.

Other than by ceasing to be eligible as set out above, a Board member may also be removed from office during a term of appointment by the unanimous agreement of all of the other members. The removal of the independent member requires the consent of the Administering Authority.

### **3) Conflicts of Interest**

The policy for identifying, monitoring and managing conflicts of interest is set out in a separate policy document, which should be regularly reviewed by the Pension Board.

### **4) Standards of Conduct**

The role of Pension Board members requires the highest standards of conduct and therefore the "seven principles of public life" will be applied to all Pension Board members and embodied in their code of conduct.

These are:

- selflessness
- integrity
- objectivity
- accountability
- openness
- honesty
- leadership

## **5) Knowledge and Skills**

A member of the Pension Board must be conversant with:

1. The legislation and associated guidance of the LGPS
2. Any document recording policy about the administration of the LGPS which is for the time being adopted by the NYPF

A member of the Pension Board must have knowledge and understanding of:

- a. the law relating to pensions, and
- b. any other matters which are prescribed in the regulations

Individual Pension Board members must satisfy themselves that they have the appropriate degree of local knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board. This includes being fully aware of all requirements detailed in these terms of reference for example on standards of conduct and conflicts of interest, and being conversant with the investment strategy of the Fund.

In line with this requirement Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Pension Board members are therefore required to maintain a written record of relevant training and development. Pension Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.

## **6) Board Review Process**

The Board will undertake each year a formal review process to assess how well it and its members are performing with a view to seeking continuous improvement in the Board's performance.

## **7) Accountability**

The Pension Board will be collectively and individually accountable to the Administering Authority.

## **8) Remit of the Board**

The Pension Board must assist the Administering Authority with such matters as the scheme regulations may specify. It is for scheme regulations and the Administering Authority to determine precisely what the Pension Board's role entails. Examples of activity include, inter alia:

- reviewing the Fund's governance and policy documents, such as the Governance Compliance Statement and the Communications Policy Statement
- reviewing the Fund's Annual Report
- reviewing the administrative performance of the Fund
- reviewing shareholder voting and engagement arrangements
- reviewing the Fund's Risk Register
- reviewing the NYPF website
- supporting and challenging PFC actions as a critical friend

## **9) Decision making**

Each Pension Board member who is a scheme member or employer representative will have an individual voting right but it is expected that the Pension Board will as far as possible reach a consensus. The Chair of the Pension Board will not be entitled to vote.

## **10) Quorum**

The Board shall be quorate if the Chair, 1 scheme member representative and 1 employer representative are present.

## **11) Board Meetings – Notice, Minutes and Reporting**

The Administering Authority shall give notice to all Pension Board members of every meeting of the Pension Board and shall ensure that a formal record of Pension Board proceedings is maintained. Following the approval of the minutes by the Chair of the Board, they shall be circulated to all Pension Board members.

The Pension Board is a committee of the Council and as such the Council's rules on notice of meetings, publishing agendas, reports and minutes and that meetings and papers (unless exempt) are open to the public will apply. At the discretion of the Administering Authority items may be edited or excluded on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

The Pension Board shall annually report to the Administering Authority on its nature and activities. The precise content of this report will be subject to consideration and agreement at a meeting of the Board but as a minimum should include

- a. details of members attendance at meetings of the Pension Board
- b. details of training and development activities made available to Pension Board members and attendance at such activities
- c. details of any recommendations made by the Pension Board to the Scheme Manager and the Scheme Manager's response to those recommendations
- d. details of costs incurred in the operation of the Pension Board
- e. a review of the effectiveness of the Board (see Section 6)

In consideration of items of business at its ordinary meetings the Pension Board shall determine whether it wishes to make recommendations to the Scheme Manager, to which the Scheme Manager shall respond at the subsequent meeting.

The Pension board shall also report as required by the regulations to the Pensions Regulator and the National Scheme Advisory Board.

## **12) Reporting Breaches**

Any breach brought to the attention of the Pension Board, whether potential or actual, shall be dealt with in accordance with the procedure set out in the draft code of practice 14 issued by the Pensions Regulator, *Governance and Administration of Public Service Pension Schemes*. 6

### **13) Publication of Pension Board information**

Scheme members and other interested parties will want to know that the NYPF is being efficiently and effectively managed. They will also want to be confident that the Pension Board is properly constituted, trained and competent in order to comply with scheme regulations, and to carry out its role in relation to the governance and administration of the scheme and requirements of the Pension Regulator.

Up to date information will be posted on the NYPF website showing:

- the names of the Pension Board members and other relevant information
- how the scheme members are represented on the Pension Board
- the responsibilities of the Pension Board as a whole
- the full terms of reference and policies of the Pension Board and how they operate
- the Pension Board appointment process
- any specific roles and responsibilities of individual Pension Board members

The Administering Authority will also consider requests for additional information to be published or made available to individual scheme members to encourage scheme member engagement and promote a culture of openness and transparency.

### **14) Advice to the Board**

The Board will be supported in its role and responsibilities by the Administering Authority through advice and support as appropriate.

### **15) Expense Reimbursement, remuneration and allowances**

The Administering Authority will determine remuneration and allowances to be paid to Pension Board members based on recommendations made by the Independent Panel on Members Remuneration. These arrangements are reviewed annually.

Expenses in connection with fulfilling Pension Board responsibilities will be met by the Fund based on the Council's Members Scheme of Allowances and officers Travel and Expenses Policy as appropriate. The costs of appropriate training will also be met by the Fund.

### **16) Insurance**

The Council's Public Liability Insurance applies to members of the Pension Board.

### **17) Updating the Pension Board Terms of Reference**

Approval for significant amendments must be pursued through the Council's Constitution Working Group. General updating or housekeeping can be carried out without the need to seek formal approval.

### **18) Definitions**

The undernoted terms shall have the following meaning when used in this document:

*"Pension Board" or "Board"*

Means the Pension Board for the Council as the Administering Authority of the NYPF as required under the Public Service Pensions Act 2013

*"Administering Authority"*

Means the Council



<i>"Scheme Manager"</i>	Means the PFC of the Council
<i>"Chair"</i>	The individual responsible for chairing meetings of the Pension Board and guiding its debates
<i>"LGPS"</i>	The Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and the The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
<i>"Scheme"</i>	Means the Local Government Pension Scheme as defined under "LGPS"

**NORTH YORKSHIRE COUNTY COUNCIL****PENSION BOARD****CONFLICTS OF INTEREST POLICY****Introduction**

There is a requirement for Pension Board members not to have a conflict of interest. However, it is important to note that the issue of conflicts of interest must be considered in light of the Pension Board's role, which is to assist the Administering Authority. The Pension Board does not make decisions in relation to the administration and management of the Fund: this rests with the Administering Authority. As a result, it is not anticipated that significant conflicts will arise in the same way as would be the case if the Board were making decisions on a regular basis (compared, for example, to the Pension Fund Committee). Nevertheless, steps need to be taken to identify, monitor and manage conflicts effectively.

The Regulator has a particular role in relation to members of the Pension Board and conflicts of interest. Whilst members of the Pension Board may be subject to other legal requirements when exercising functions as a member of the Pension Board, the Regulator expects the requirements which specifically apply by virtue of the Public Service Pensions Act 2013 to be met and the standards of conduct and practice set out in its Code of Practice to be complied with.

The Code of Practice offers guidance about managing potential conflicts and the identification, monitoring and management of actual conflicts. This Policy is intended to reflect the principles of the Regulator's Code of Practice and apply them in an LGPS context.

**Identifying conflicts of interest**

For the purposes of a member of the Pension Board, a 'conflict of interest' is defined in section 5(5) of the 2013 Act as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. The 2013 Act also specifies that a conflict does not include a financial or other interest arising merely by virtue of that person being a member of the LGPS.

Therefore, a conflict of interest may arise when a member of the Pension Board must fulfil their legal duty to assist the Administering Authority and at the same time they have:

- a separate personal interest (financial or otherwise); or
- another responsibility in relation to that matter, giving rise to a possible conflict with their first responsibility as a Pension Board member

The Regulations place a duty on the Administering Authority to satisfy itself that those appointed to its Pension Board do not have an actual conflict of interest prior to appointment and "from time to time".

There is a corresponding duty on any person who is proposed to be appointed to the Pension Board, and on an appointed member of the Pension Board, to provide the Administering Authority with such information as the Administering Authority reasonably requires to be satisfied that there are no conflicts of interest. Pension Board members also have a responsibility to anticipate potential conflicts of interest in relation to plans for future Pension Board activity.

Some examples of how a conflict might arise specifically in relation to a member of a Pension Board include:

- a finance officer appointed as a member of the Pension Board may, from time to time, be required to take or scrutinise a decision which may be, or appear to be, in opposition to another interest or responsibility. For example, they may be required as a member of the Pension Board to take or scrutinise a decision which involves the use of departmental resources to improve scheme administration, whilst at the same time being tasked, by virtue of their employment, with reducing departmental spending
- a Pension Board member who works in the Administering Authority's internal audit function may be required as part of his work to audit the Fund. For example, the employee may become aware of confidential breaches of law by the Fund which have not yet been brought to the attention of the Pension Board
- an employer representative from the private sector may also have a conflict of interest as a decision-maker in their own workplace. For example, if an employer representative is drawn from a company to which the Administering Authority has outsourced its pension administration services and the Board are reviewing the standards provided by it.

Conflicts of interest may also arise in respect of advisers to the Pension Board. For example, an adviser may have a conflict of interest if he or she (or the same firm) is also advising the Administering Authority. The risk to the Pension Board is that the adviser does not provide, or is not seen to provide, independent advice. Where there is likely to be a conflict of interest in giving advice, the Board should consider carefully whether it is appropriate to appoint the adviser in the first place. It may also be necessary to consider carefully whether they should take steps to remove an adviser who has already been appointed.

### **Monitoring and Managing potential conflicts of interest**

In order for the Administering Authority to fulfil its obligation to ensure that members of the Pension Board do not have a conflict of interest, the Pension Board must include an item on conflicts of interest at each meeting of the Pension Board and in its annual report to the Administering Authority.

The Pension Board is required to maintain a written register of dual interests and responsibilities which have the potential to become conflicts of interest, which may adversely affect members' or advisers' suitability for the role. Each member of the Pension Board (as well as any other attendees participating in the meeting) will be expected to declare, on appointment and at each meeting, any interests which may lead to conflicts of interest. Such a conflict could be in relation to a general subject area or to a specific agenda item of a Pension Board meeting.

The Chair of the Pension Board must be satisfied that the Board is acting within:

- the conflicts of interest requirements of the Public Service Pensions Act and the LGPS Regulations, and
- in the spirit of any national guidance or code of practice in relation to conflicts of interest for Pension Board members, and

Each member of the Pension Board, or a person proposed to be appointed to the Board, (as well as attendees participating in the meeting) must provide the Chair of the Pension Board with such information as he or she reasonably requires for the purposes of demonstrating that there is no conflict of interest.

Pension Board members are required to have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and should know how potential conflicts should be managed.

The Pension Board is required to evaluate the nature of any dual interests and responsibilities, assess the impact on operations and governance were a conflict of interest to materialise, and seek to prevent a potential conflict of interest becoming detrimental to the conduct or decisions of the Pension Board. The Pension Board may consider seeking independent legal advice from a nominated officer (for example, the monitoring officer) or external advisers where necessary on how to deal with these issues, if appropriate.

Individual members of the Pension Board must know how to identify when they have a conflict of interest which needs to be declared and which may also restrict their ability to participate in meetings or decision-making. They also need to appreciate that they have a legal duty under the Regulations to provide information to the Administering Authority in respect of conflicts of interest.

Options for managing an actual conflict of interest, should one arise, include:

- a member withdrawing from the discussion and any decision-making process;
- the Board establishing a sub-board to review the issue (where the terms of reference give the power to do so); or
- a member resigning from the Board if the conflict is so fundamental that it cannot be managed in any other way

**30<sup>th</sup> July 2015**

### PENSIONS BOARD TRAINING POLICY

#### 1.0 Introduction

- 1.1 This policy statement details the training agenda for members of the Pensions Board and has been drawn up to meet their needs in relation to training.
- 1.2 In addition to the Training Policy for Board members, Board members will have access to all training provided to members of the Pensions Fund Committee.

#### 2.0 Knowledge and understanding required by pension board members

- 2.1 A member of the pension board of a public service pension scheme must be conversant with:
  - a. the rules of the scheme, and
  - b. any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

A member of a pension board must have knowledge and understanding of:

- a. the law relating to pensions, and
- b. any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual properly to exercise the functions of a member of the pension board.

#### 3.0 Training Agenda

- 3.1 Pension Board members will need to carry out a personal training needs self-assessment to identify training needs, and assess their overall level of Knowledge and Understanding.
- 3.2 It is a requirement by the Pensions Regulator (tPR) that Pension Board members should invest sufficient time in learning and development and keep records of learning activities. Using a personalised training plan will help to document and address training needs promptly as well as keep knowledge and understanding up to date.

- 3.3 Council officers will provide details of training events relevant to Pension Board members.
- 3.4 Training should be on-going for Board members, and may consist of some or all of following:
- on-line training provided by tPR
  - attendance at employer and scheme member events hosted by the Pension Fund
  - attendance at seminars and training events offered by the Fund's investment managers and advisors
  - attendance at external training courses, seminars and events suitable for their needs

In addition, unstructured training such as internet research may constitute training.

#### **4.0 Review arrangements**

- 4.1 A report will be presented to the Pensions Board on a quarterly basis detailing:
- training completed over the previous year, and by which members
  - advance notification of forthcoming training events
- 4.2 Pension Board members will carry out an annual review of skills, competencies and knowledge to identify any gaps or weaknesses to reassess their overall level of "Knowledge and Understanding".
- 4.3 The Pension Board will review the Training policy annually.

#### **5.0 Costs of Training**

- 5.1 All training costs will be met by the Pension Fund.

## Pension Board Members - Training, Meetings and Events

## Appendix 4

Date	Title or Nature of Course	Sponsor/ Organiser	Venue	David Portlock - Chair	Mandy Swithenbank	Stella Smethurst	Ben Drake	Gordon Gresty	Louise Branford- White	Cllr Mike Jordan	Cllr Ian Cuthbertson	Phil MacDonald
04/06/15	Training Event for Pension Board Members	LGA	Marriott Hotel, Leeds			X		X	X	X		
03/07/15	Pension Board Member Training	AON	Leeds		X					X		
17/07/15	Pension Board Member Training	AON	Leeds		X	X				X		
24/07/15	Pension Board Member Training	AON	Leeds			X				X		
21/10/15	LGPS Trustee Training – Fundamentals XIV	LGA	Leeds		X	X	X	X			X	
17/11/15	LGPS Trustee Training – Fundamentals XIV	LGA	Leeds	X	X	X	X	X			X	
08/12/15	LGPS Trustee Training – Fundamentals XIV	LGA	Leeds	X	X	X	X	X	X	X	X	
14/01/16	Governance for North Yorkshire Pension Board	Peter Scales – Independent Observer for the North Yorkshire pension fund	County Hall	X	X	X	X	X	X	X	X	
29/06/16	Local Pension Board Conference	CIPFA & Barnett Waddingham	London	X								
01/03/17	LGPS Spring Seminar	CIPFA & Barnett Waddingham	Leeds	X								X
28/06/17	Local Pension Boards 2 years on	CIPFA & Barnett Waddingham	London	X								
29/06/17 and 30/06/17	Annual LGPS “Trustees” Conference	LGA	Bournemouth	X								X
17/09/15	North Yorkshire Pension Fund Committee	NYCC	County Hall	X								
26/11/15	North Yorkshire Pension Fund Committee	NYCC	County Hall	X	X	X	X					
15/01/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X	X	X	X					
25/02/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X		X	X					

Date	Title or Nature of Course	Sponsor/ Organiser	Venue	David Portlock - Chair	Mandy Swithenbank	Stella Smethurst	Ben Drake	Gordon Gresty	Louise Branford- White	Cllr Mike Jordan	Cllr Ian Cuthbertson	Phil MacDonald
19/05/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X								
07/07/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X			X					
15/09/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X	X			X				
24/11/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X		X	X					
26/01/17	North Yorkshire Pension Fund Committee	NYCC	County Hall	X	X		X		X	X	X	X
23/02/17	North Yorkshire Pension Fund Committee	NYCC	County Hall	X								
31/03/17	North Yorkshire Pension Fund Committee	NYCC	County Hall	X								
25/05/17	North Yorkshire Pension Fund Committee	NYCC	County Hall	X								
25/11/16	North Yorkshire Pension Investment Strategy Workshop	NYPF	County Hall	X								
23/02/17	North Yorkshire Pension Investment Strategy Workshop	NYPF	County Hall	X								
11/11/16	Triennial Valuation Seminar	Actuary	County Hall	X					X			
13/01/17	Pooling – Employers Seminar	NYPF	County Hall	X	X			X	X			
24/02/17	North Yorkshire Pension Fund Manager Meeting	NYPF	County Hall	X								
03/03/16	Audit Committee Training Session - Counter Fraud	NYCC	County Hall	X						X		
03/02/16	Governance Forum	Mazars	York	X						X		
08/07/16	Governance Forum	Mazars	York	X						X		
03/02/17	Governance Forum – (Including Cyber Security)	Mazars	York	X						X		
07/15 – 03/17	Introducing Pension Schemes	The Pensions' Regulator – Toolkit Modules	On-line		X			X			X	



Date	Title or Nature of Course	Sponsor/ Organiser	Venue	David Portlock - Chair	Mandy Swithenbank	Stella Smethurst	Ben Drake	Gordon Gresty	Louise Branford- White	Cllr Mike Jordan	Cllr Ian Cuthbertson	Phil MacDonald
07/15 – 03/17	The Trustees' Role	The Pensions' Regulator – Toolkit Modules	On-line	X	X			X				
07/15 – 03/17	Running a Scheme	The Pensions' Regulator – Toolkit Modules	On-line	X	X			X				
07/15 – 03/17	Pensions' Law	The Pensions' Regulator – Toolkit Modules	On-line		X			X				
07/15 – 03/17	An introduction to investment	The Pensions' Regulator – Toolkit Modules	On-Line					X				
07/15 – 03/17	How a DB Scheme works	The Pensions' Regulator – Toolkit Modules	On-line					X				

## PENSION BOARD WORK PLAN

Appendix 5

	Jan 2017	20-Apr-17	20-Jul-17	12-Oct-17	18-Jan-18	12-Apr-18	
<u>Business planning</u>							
1	Agree plan for the year	✓				✓	
2	Review Terms of Reference		✓			✓	
3	Review performance against the plan	✓	✓	✓	✓	✓	✓
4	Report to the PFC / NYCC	✓	✓	✓	✓	✓	✓
5	Report to Scheme Advisory Board / DCLG		✓	✓			
<u>Compliance checks</u>							
6	Review regular compliance monitoring reports		✓		✓		✓
7	Review the compliance of scheme employers						
8	Review such documentation as is required by the Regulations						✓
9	Review the outcome of internal audit reports	✓	✓	✓	✓	✓	
10	Review the outcome of external audit reports				✓		
11	Review and publish Annual Report			✓			
12	Review the compliance of particular issues on request of the PFC						
13	Review the outcome of actuarial reporting and valuations		✓				
14	Assist with compliance with the UK Stewardship Code				✓		
<u>Administration procedures and performance</u>							
15	Review management, administrative and governance processes and procedures				✓		
16	Monitor complaints and performance						
17	Review the Internal Dispute Resolution Process						
18	Review cases referred to the Pensions Ombudsman						
19	Review the implementation of revised policies and procedures						
20	Review the exercise of employer and administering authority discretions				✓		
21	Assist with the development of improved customer services				✓		
22	Monitor performance of administration, governance and investments						
23	Review processes for the appointment of advisors and suppliers						
24	Monitor investment costs						
25	Review the risk register	✓		✓		✓	
26	Assist with the development of improved structures and policies						
27	Assist in assessing process improvements on request of PFC						
28	Assist with asset voting and engagement processes						
29	Pooling arrangements and governance	✓	✓	✓	✓	✓	✓
<u>Communications</u>							
30	Review scheme member and employer communications				✓		
<u>Training</u>							
31	Review Pension Board knowledge and skills self assessment	✓	✓	✓	✓	✓	✓
32	Review training log	✓	✓	✓	✓	✓	✓
33	Review training arrangements for the Board and other groups	✓	✓	✓	✓	✓	✓

### Notes

- 3 arrangements to be determined by the Council.
- 4 arrangements to be determined by SAB/DCLG.

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

14 SEPTEMBER 2017

## STATEMENT OF FINAL ACCOUNTS 2016/17 AND PENSION FUND ANNUAL REPORT

## Report of the Treasurer

**1.0 PURPOSE OF REPORT**

- 1.1 To note the Statement of Final Accounts for the financial year 2016/17.
- 1.2 To approve the Pension Fund Annual Report 2016/17.

**2.0 STATEMENT OF ACCOUNTS**

- 2.1 The Pension Fund Statement of Final Accounts for 2016/17 is attached as **Appendix 1**. This complies fully with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 governing the preparation of the 2016/17 Financial statements for Local Government Pension Scheme Funds.
- 2.2 This year has seen an earlier production of the Statement of Final Accounts (SOFA) for the County Council which, as administering authority, includes the NYPF accounts. The draft SOFA was presented to the Audit Committee on 22 June 2017 and was approved by the PFC on 6 July 2017. The final Statement of Accounts is set to be considered by the Audit Committee on 7 September 2017 (with a reserve date of 28 September 2017 should that be necessary), a verbal update will be provided to Members at the PFC meeting.
- 2.3 At the last meeting Members agreed to delegate authority to the Chairman of the PFC to make any required changes to the draft Accounts following consultation with the Treasurer. The following key changes have been made to the Draft Accounts, along with some minor wording and formatting changes:

Change	Note	Original figure (£000)	Final Figure (£000)	Variance (£000)	Comments
Restatement of 2015/16 Management fees	11	(9,797)	(16,235)	6,438	This increase is due to management fees that are deducted from Assets Under Management now being included in the figure for transparency, the original figure just included the invoiced management fees.
Reclassification of 2016/17 assets from Level 1 to Level 2	16a	Level 1- 3,035,781 Level 2- 0	Level 1- 2,725,940 Level 2- 309,841	Level 1- (309,841) Level 2- 309,841	This re-classification (relating to SL GARS, L&G, ECM, Permira, Bluebay) is because these investments are

					not traded so quoted market prices are not available.
Amendment to 2016/17 Investment Income	12, fund account	19,375	18,330	1,045	Trial balance reconciled after corrections made
Amendment to change in market value of investments	14a, fund account	589,445	590,955	(1,510)	Change due to a review of the management expenses and income correction
Change to investment management cost	11, fund account	(14,853)	(14,231)	(622)	Change made at auditors request
Change to taxation figure	13, fund account	265	(256)	521	Correction to the calculation used for taxation
Change to other non-investment debtors	Net asset statement	313	797	(484)	Change in accounting treatment of debtors
Change to 2016/17 Management Expenses	11, fund account	(2,168)	(2,255)	87	Trial balance reconciled after corrections made
Change in cash deposits	Net asset statement	10,126	10,123	3	Small opening balances omitted in original figure
Change in non-investment creditors	Net asset statement	(1,743)	(1,744)	1	Rounding error

2.4 The changes in the table above have been approved the Chairman and Treasurer of the Fund.

2.5 Members are asked to note the Statement of Final Accounts for the financial year 2016/17.

### 3.0 ANNUAL REPORT

3.1 The Pension Fund Annual Report 2016/17 is attached as **Appendix 2**. Members are asked to approve the content of the Report. Members will note that the format of the report has been updated for 2016/17 but the content remains the same as in previous years and is compliant with the LGPS Regulations 2013. The governance documents are now included as links to the NYPF website rather than being attached as Appendices. To remind Members, all of these governance documents were approved at the July PFC Meeting.

3.2 The Annual Report is included in the audit of the Accounts. 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. Members will be updated on audit process in the PFC Meeting.

3.3 The Annual Report will be placed on the NYPF website by the deadline for publication of the 2016/17 Statement of Final Accounts of 30 September 2017.

4.0 **RECOMMENDATIONS**

4.1 Members are asked to note the Statement of Final Accounts for 2016/17

4.2 Members are asked to approve the Pension Fund Annual Report for 2016/17.

GARY FIELDING

Treasurer

Corporate Director – Strategic Resources

County Hall

Northallerton

1 September 2017

**NORTH YORKSHIRE PENSION FUND**  
**FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2017**

2015/16		2016/17	
£000	-	£000	£000
	<b>CONTRIBUTIONS AND BENEFITS</b>		
	<b>Contributions</b>		
57,626	Employers - Normal	58,793	
25,765	- Deficit	38,953	
2,572	- Early Retirement Costs Recharged	3,091	
25,492	Employees - Normal	26,226	
233	- Additional Voluntary	187	
<u>111,688</u>	<b>Total Contributions Receivable (Note 7)</b>		127,250
8,680	<b>Transfers In (Note 8)</b>		11,959
	<b>Less</b>		
	<b>- Benefits</b>		
(73,274)	Pensions	(76,846)	
(23,176)	Commutation and Lump Sum Retirement Benefits	(23,693)	
<u>(2,282)</u>	Lump Sums Death Benefits	<u>(3,664)</u>	
(98,732)	<b>Total Benefits Payable (Note 9)</b>		(104,203)
	<b>Leavers</b>		
(364)	Refunds to Members Leaving Service	(267)	
0	Payments for Members Joining State Scheme	0	
<u>(3,603)</u>	Transfers Out	<u>(9,280)</u>	
(3,967)	<b>Total Payments on Account of Leavers (Note 10)</b>		(9,547)
(1,829)	<b>Management Expenses (Note 11)</b>		(2,255)
<u>15,840</u>	<b>Net Additions From Dealings With Members</b>		<u>23,205</u>
	<b>RETURNS ON INVESTMENTS</b>		
16,963	<b>Investment Income (Note 12)</b>		18,330
(290)	<b>Taxation (Note 13)</b>		(256)
(7,968)	<b>Investment Management Cost (Note 11)</b>		(14,231)
<u>(6,581)</u>	<b>Change in market value of investments (Note 14a)</b>		<u>590,955</u>
2,124	<b>Net Returns On Investments</b>		<u>594,798</u>
17,964	<b>Net Increase in the Fund During the Year</b>		618,003
2,399,869	<b>Opening Net Assets of the Fund</b>		2,417,833
<u>2,417,833</u>	<b>Closing Net Assets of the Fund</b>		<u>3,035,836</u>

## NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31 March 2016 £000		31 March 2017 £000
	<b>INVESTMENT ASSETS (Notes 15 &amp; 16)</b>	-
341,598	Fixed Interest Securities	422,864
488,055	Equities	587,799
1,391,947	Pooled Investments	1,742,033
176,463	Pooled Property Investments	252,966
82	Private Equity	55
2,398,145		3,005,717
8,339	Cash Deposits	10,123
13,584	Investment Debtors	6,234
2,420,068	<b>TOTAL INVESTMENT ASSETS</b>	3,022,074
	<b>INVESTMENT LIABILITIES (Notes 14 &amp; 15)</b>	
0	Derivative Contracts - Forward Currency Contracts	(182)
(10,771)	Investment Creditors	(1,670)
(10,771)	<b>TOTAL INVESTMENT LIABILITIES</b>	(1,852)
2,409,297	<b>NET INVESTMENT ASSETS</b>	3,020,222
	<b>CURRENT ASSETS</b>	
7,612	Contributions due from employers	7,878
903	Other Non-Investment Debtors	797
3,780	Cash	8,683
12,295	<b>TOTAL CURRENT ASSETS</b>	17,358
	<b>CURRENT LIABILITIES</b>	
(3,759)	Non-investment creditors	(1,744)
(3,759)	<b>TOTAL CURRENT LIABILITIES</b>	(1,744)
2,417,833	<b>TOTAL NET ASSETS (Note 17)</b>	3,035,836

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 2017**

**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 2016/17 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 2016

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 2017 there were 140 contributing employer organisations within NYPF including the County Council itself, and over 87,000 individual members, as detailed below

<b>95 Scheduled Bodies incl 52 Academies</b>	
	<b>Academy Trusts</b>
Ainsty 2008 Internal Drainage Board	<u>Bishop Wheeler Academy Trust Bodies</u>
Askham Bryan College	- Mary's RC School
Chief Constable NYP	- St Stephen's RC School
City of York Council	- St. Joseph's School
Craven College	<u>Craven Education Trust</u>
Craven District Council	- The Skipton Academy
Easingwold Town Council	<u>Ebor Academy Trust</u>
Filey Town Council	- Brotherton and Byram School



Foss 2008 Internal Drainage Board	- Haxby Road Academy
Fulford Parish Council	- Staynor Hall
Glusburn Parish Council	- Filey School Academy
Great Ayton Parish Council	- Camblesworth CP School
Hambleton District Council	- Robert Wilkinson Primary Academy
Harrogate Borough Council	<u>Enguire Learning Trust</u>
Haxby Town Council	- Roseberry Academy
Hunmanby Parish Council	- East Whitby C.P.
Knaresborough Town Council	- Stokesley C.P.
Malton Town Council	<u>Hope Learning Trust</u>
North York Moors National Park	- Manor Academy
North Yorkshire County Council	- Poppleton Ousebank School
North Yorkshire Fire and Rescue	- Burton Green Primary
North Yorkshire Police and Crime Comissioner	- Forest of Galtres
Northallerton & Romanby JBB	<u>Northern Star Academy Trust</u>
Northallerton Town Council	- Harrogate High
Norton on Derwent Town Council	- Hookstone Chase Primary School
Pickering Town Council	- New Park Academy
Richmond Town Council	- Skipton Girls High School
Richmondshire District Council	<u>Pathfinder Academy Trust</u>
Ripon City Council	- Archbishop Holgate
Ryedale District Council	- Badger Hill
Scarborough Borough Council	- Hempland Primary
Scarborough Sixth Form College	- Heworth Primary
Selby College	<u>Red Kite Learning Trust</u>
Selby District Council	- Harrogate Grammar
Selby Town Council	- Oatlands Junior School
Skipton Town Council	- Western CP School
Sutton in Craven Parish Council	<u>Rodillian Multi Academy Trust</u>
Tadcaster Town Council	- Brayton High School
Thornton (Vale of Pickering) IDB	<u>Scalby Learning Trust</u>
Whitby Town Council	- Scalby School
York College	<u>South Bank Multi Academy Trust</u>
Yorkshire Dales National Park	- Knavesmire
	- Millthorpe
University Technical College Scarborough	- Scarcroft
Great Smeaton Academy Primary School	<u>South Craven Academy Trust</u>
Huntington Primary Academy	- South Craven School
Norton College	<u>Vale of York Academy Trust</u>
Outwood Academy	- Canon Lee
Rossett School	<u>YA Collaboration Trust</u>
Stokesley School Academy	- Askwith School
The Grove Academy	- Bilton Grange School
The Woodlands Academy	- Lothersdale Schools
Thomas Hinderwell Primary Academy	<u>Yorkshire Causeway Trust</u>
	- Richard Taylor School
	- St Aidans CE School
	- Oatlands Infant School
	- Pannal Primary School
	- St Peter's CE Primary School

#### 45 Admitted Bodies

Be Independent	Mellors
Betterclean Services	Northern Care (Whistledawn)
Bulloughs Cleaning Ltd	North Yorkshire Property Services
Catering Academy Ltd	OCS Group UK Ltd
Caterservice Ltd	Richmondshire Leisure Trust
Chartwells Compass	Ringway Operatives
Churchill	Sanctuary Housing Association
Everyone Active (SLM Scarborough)	Schools Plus
Consultant Services Group	Sewell Facilities Management
Dolce Ltd	Sheffield International Venues
Enterprise	
Explore York Libraries and Archives	Springfield Home Care
Grosvenor Facilities Management	Streamline Taxis
Harrogate International Centre	Superclean Services Group
Housing 21	University of Hull
Human Support Group Ltd	Veritau Ltd
Hutchison Catering	Veritau North Yorks
Independent Cleaning Services	Welcome to Yorkshire
Interserve	Wigan Leisure and Culture Trust
ISS Mediclean Ltd	York Archaeological Trust Ltd
Joseph Rowntree Charitable Trust	York Museums and Galleries Trust
Lifeways Community Care Ltd	York St John University
Make It York	Yorkshire Coast Homes

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	No	No
Number of Employers with Active Members	140	125
Employees in the Fund		
NYCC	19,528	20,497
Other employers	14,031	13,493
Total	<u>33,559</u>	<u>33,990</u>
Pensioners		
NYCC	11,017	10,623
Other employers	9,424	9,087
Total	<u>20,441</u>	<u>19,710</u>
Deferred pensioners		
NYCC	20,318	19,560
Other employers	12,829	12,409
Total	<u>33,147</u>	<u>31,969</u>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 that set the contribution rates for 2017/18, 2018/19, 2019/20; details of the rates for individual employers are available on the Fund's website. The contribution rates in 2016/17 were set at the 2013 Valuation.

### d) Benefits

Prior to 1 April 2014 pension benefits under the LGPS up to 31 March 2014 are based on final pensionable pay and length of pensionable service.

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

From 1 April 2014 the scheme became a career average scheme whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. 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 2016/17 financial year and its year end position as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 that have been paid during the financial year.

##### **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) Management expenses**

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the fund discloses its pension fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme

Management Expenses (2016).

### **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.

### **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
- Hermes Investment Management- UK Property
- Bluebay- Private Debt
- Permira- Private Debt

Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund accounts.

### **Net Assets Statement**

#### **g) 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.

#### **h) 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.

#### **i) 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 purpose (see note 15)

#### **j) 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.

#### **k) 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.

#### **l) 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.

#### **m) 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(1)(b) of the LGPS (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (**Note 23**).

### **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 2017 was £55k (31 March 2016, £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 19**. 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 2017 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 1.9%, a 0.1% increase in inflation would increase liabilities by 1.9%, and an increase in life expectancy of one year would increase liabilities by 2.9%.

## 6. Events After the Reporting Date

There have been no Post Balance Sheet Events.

## 7. Contributions Receivable

By category	2016/17 £000	2015/16 £000
<b>Employees' contributions</b>	26,413	25,725
Employers' contributions		
Normal contributions	58,793	57,626
Deficit recovery contributions	38,953	25,765
Early Retirement Recharges	2,602	2,572
Compensatory Added Years Recharges	489	0
<b>Total Employers' contributions</b>	<u>127,250</u>	<u>111,688</u>
By authority		
	2016/17 £000	2015/16 £000
<b>Contributions Receivable</b>		
North Yorkshire County Council	52,208	49,156
Other Scheduled Bodies	68,944	55,521
Admitted Bodies	6,098	7,011
	<u>127,250</u>	<u>111,688</u>

## 8. Transfers In from Other Pension Funds

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

9. Benefits Payable	2016/17 £000	2015/16 £000
Benefits Payable		
North Yorkshire County Council	44,144	42,069
Other scheduled bodies	53,056	49,115
Admitted bodies	7,003	7,548
	<u>104,203</u>	<u>98,732</u>

## 10. Payments To and On Account of Leavers

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

## 11. Management Expenses

	2016/17	2015/16	
	£000	Restated £000	Original £000
Administrative Costs	1,852	1,412	1,412
Investment Management Costs	14,231	14,407	7,968
Oversight and Governance Costs	403	417	417
	<u>16,486</u>	<u>16,235</u>	<u>9,797</u>

Investment Management Costs includes £1,990k (2015/16: £3,947K) in respect of performance related fees payable to the Fund's investment managers and £2,638k in respect of transaction costs (2015/16 £2,900k).

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**).

### 11A. Investment Management Expenses

	2016/17	2015/16
	£000	£000
Management Fees	8,597	6,637
Performance Related Fees	1,990	3,947
Custody Fees	81	97
Transaction Costs	2,638	2,900
Other	<u>925</u>	<u>825</u>
	<u>14,231</u>	<u>14,407</u>

## 12. Investment Income

	2016/17	2015/16
	£000	£000
Income from bonds	2,829	2,301
Income from equities	13,507	12,683
Pooled Property Investments	1,313	1,265
Pooled Investments - Other Managed Funds	0	63
Interest on Cash Deposits	3	81
Other	<u>678</u>	<u>570</u>
	<u>18,330</u>	<u>16,963</u>

## 13. Taxes on Income

	2016/17	2015/16
	£000	£000
Withholding Tax on Dividends	<u>256</u>	<u>290</u>

## 14. Investments



a) Reconciliation of Movements in Investments and Derivatives

	Value at 31 March 2017	Change in market value at 31 March 2017	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2016
	£000	£000	£000	£000	£000
Fixed Interest Securities	422,865	82,714	(1,232,108)	1,230,661	341,598
Equities	587,799	110,792	(287,072)	276,024	488,055
Pooled Investments	1,742,033	384,244	(51,545)	17,387	1,391,947
Pooled Property	252,966	13,387	(146,665)	209,781	176,463
Private Equity	55	0	(27)	0	82
Derivative Contracts	(182)	(182)	0	0	0
Total Invested	3,005,536	590,955	(1,717,417)	1,733,853	2,398,145
Cash Deposits	10,123				8,339
Net Investment Debtors	4,563	1,750			2,813
Net Investment Assets	3,020,222	592,705			2,409,297

	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 Securities	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)	2,348,884	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

b) Analysis of Investments (excluding derivative contracts)

	<b>2016/17</b> £000	<b>2015/16</b> £000
Fixed Interest Securities		
UK Public Sector Quoted	422,682	341,598
Equities		
UK Quoted	308,717	274,721
Overseas Quoted	279,082	213,334
	587,799	488,055
Pooled Investments		
UK Equity	70,283	65,403
UK Property	252,966	176,463
UK Fixed Income	-	-
Overseas Equity	1,328,818	950,427
Overseas Fixed Income	93,095	129,395
	1,745,162	1,321,688
Diversified Growth Funds - UK	249,837	246,722
Private Equity - UK	55	82
Total Investments (excl Derivatives)	3,005,536	2,398,145
Cash Deposits	10,123	8,339
Net Investment Debtors	4,563	2,813
Net Investment Assets	3,020,222	2,409,297

### c) Investments analysed by Fund Manager

Investment Manager	31 March 2017		31 March 2016	
	£000	%	£000	%
Baillie Gifford & Co. - Global Alpha	604,424	19.9	445,906	18.4
Baillie Gifford & Co. - LTGG	418,471	13.8	303,055	12.5
Fidelity International	340,419	11.2	259,850	10.7
Standard Life Investments - Equities	312,208	10.3	279,634	11.6
Standard Life Investments - DGF	138,060	4.5	137,312	5.7
ECM Asset Management	93,095	3.1	129,394	5.4
Hermes Property Unit Trust	32,866	1.1	32,113	1.3
Legal & General	62,453	2.1	60,029	2.5
Threadneedle	158,237	5.2	84,911	3.5
M&G Investments	427,134	14.1	342,475	14.2
Newton Investments	111,778	3.7	109,409	4.5
Dodge & Cox	153,007	5.0	104,730	4.3
Veritas	154,599	5.1	120,397	5.0
Bluebay	7,570	0.2	0	0.0
Permira	5,850	0.2	0	0.0
Currency Hedging	0	0.0	(1)	0.0
Yorks & Humber Equity Fund	52	0.0	82	0.0
Internally Managed (cash and net debtors)	15,614	0.5	8,537	0.4
	3,035,836	100.00	2,417,833	100.00

The investments with Baillie Gifford, Threadneedle and Veritas 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

#### Futures

Type	Expires	Economic Exposure	Market Value 31 March 2016	Economic Exposure	Market Value 31 March 2017
		£000	£000	£000	£000
<b>Liabilities</b>					
UK Fixed Interest	Less than one year	-	-	(182)	(182)

### 16. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Quoted bonds</b>	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
<b>Futures and options in UK bonds</b>	Level 1	Published exchange prices at the year-end	Not required	Not required
<b>Exchange traded pooled investments</b>	Level 1	Closing bid value on published exchanges	Not required	Not required
<b>Unquoted bonds</b>	Level 2	Average of broker prices	Evaluated price feeds	Not required
<b>Forward foreign exchange derivatives</b>	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
<b>Overseas bond options</b>	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required

<b>Pooled investments – overseas unit trusts and property funds</b>	Level 2	Closing bid price where bid and offer prices are published  Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
<b>Pooled investments – hedge funds</b>	Level 3	Closing bid price where bid and offer prices are published  Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts  Required by 6.5.5.1 d) and f), 7.4.2.13 of the Code.
<b>Notes to the North Yorkshire Pension Fund Account for the year ended 31 March 2017 Page 31 Description of asset</b>	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Freehold and leasehold properties</b>	Level 3	Valued at fair value at the year-end using the investment method of valuation by John Finley FRICS of independent valuers Carrott-Jones LLP in accordance with the RICS Valuation Standards (9th Edition)	Existing lease terms and rentals  Independent market research  Nature of tenancies  Covenant strength for existing tenants  Assumed vacancy levels  Estimated rental growth  Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

<b>Unquoted equity</b>	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
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### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

Assessed valuation range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
	£000	£000	£000
Pooled investments – hedge funds			
Freehold and leasehold property			
Unquoted overseas equity			
Private equity	55		
<b>Total</b>	55		

### 16a: Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

#### Level 1

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

#### Level 2

Assets and liabilities 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.

#### Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2017	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	2,729,536	309,841	55	3,039,432
Non-financial assets at fair value through profit and loss				0
Financial liabilities at fair value through profit and loss	(3,596)			(3,596)
Net investment assets	2,725,940	309,841	55	3,035,836
	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2016	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	2,105,546	326,735	82	2,432,363
Non-financial assets at fair value through profit and loss				0
Financial liabilities at fair value through profit and loss	(14,530)			(14,530)
Net investment assets	2,091,016	326,735	82	2,417,833

Following a review of investment characteristics, some investments held by the Fund have been categorised as Level 2 investments in 2016/17. If these investments were also held in 2015/16 they have also been restated in the table above.

## 17. 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.

<b>31 March 2016</b>			<b>31 March 2017</b>		
<b>Designated as fair value through profit &amp; loss</b>	<b>Loans &amp; Receivables</b>	<b>Financial liabilities amortised at cost</b>	<b>Designated as fair value through profit &amp; loss</b>	<b>Loans &amp; Receivables</b>	<b>Financial liabilities amortised at cost</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
					<b>Assets</b>
341,598			422,864		Fixed Interest Securities
488,055			587,799		Equities
1,145,224			1,492,196		Pooled Investments
176,463			252,966		Pooled Property
246,722			249,837		Diversified Growth Funds
82			55		Private Equity
					Derivative contracts
	12,120			18,806	Cash
13,584	0		6,234		Investment Debtors
	8,515			8,675	Non Investment Debtors
<u>2,411,728</u>	<u>20,635</u>	<u>0</u>	<u>3,011,951</u>	<u>27,481</u>	<u>0</u>
					<b>Liabilities</b>
0			182		Derivative Contracts
10,771			1,670		Investment Creditors
					Non Investment Creditors
		3,759			
<u>10,771</u>	<u>0</u>	<u>3,759</u>	<u>1,852</u>	<u>0</u>	<u>1,744</u>
<u>2,400,957</u>	<u>20,635</u>	<u>(3,759)</u>	<u>3,010,999</u>	<u>27,481</u>	<u>(1,744)</u>

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

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Fair Value Through Profit & Loss	590,955	(6,581)
Loans and Receivables	37	(20,489)
	<u>590,992</u>	<u>(27,070)</u>

## 18. 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 reviewed regularly to reflect changes in activity and in market conditions. The risk register covers a broad range of risks in addition to the solvency of the Fund, including, but not limited to, investment strategy, pooling arrangement and key personnel risks.

#### 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 2017/18 reporting period.

<b>Asset Type</b>	<b>Potential Market Movements (+/-)</b>
	<b>%</b>
Cash and Cash Equivalents	1.0
UK Bonds	9.0
UK Equities	19.0
Overseas Equities	20.5
UK Pooled Equities	19.0
Overseas Pooled Equities	20.5
UK Pooled Bonds	9.0
Overseas Pooled Bonds	11.0
Pooled Property Investments	12.5
Diversified Growth Funds	10.5
Private Equity	27.5
Derivatives	0.0
Non-Investment Debtors/Creditors	0.0

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

<b>Asset Type</b>	<b>Value as at 31 March 2017</b>	<b>Potential Market Movement</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	£000	£000	£000	£000
Cash and Cash Equivalents	10,123	101	10,224	10,022
UK Bonds	422,864	38,058	460,922	384,806
UK Equities	308,717	58,656	367,373	250,061
Overseas Equities	279,082	57,212	336,294	221,870
UK Pooled Equity	70,283	13,354	83,637	56,929
Overseas Pooled Equity	1,328,818	272,408	1,601,226	1,056,410
UK Pooled Bonds	0	0	0	0
Overseas Pooled Bonds	93,095	10,240	103,335	82,855
Pooled Property Investments	252,966	31,621	284,587	221,345
Diversified Growth Funds	249,837	26,233	276,070	223,604
Private Equity	55	15	70	40
Derivatives	(182)	0	(182)	(182)
Non Investment Debtors/Creditors	6,931	0	6,931	6,931
<b>Total Assets</b>	<b>3,022,589</b>		<b>3,530,487</b>	<b>2,514,691</b>

<b>Asset Type</b>	<b>Value as at 31 March 2016</b>	<b>Potential Market Movement</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	£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
<b>Total Assets</b>	<b>2,411,240</b>		<b>2,801,544</b>	<b>2,020,936</b>

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is monitored by the Fund and its investment advisers through the risk management strategy including monitoring the exposure to interest rates and assessment of actual interest rates against the strategic benchmark.

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	<b>2016/17</b>	<b>2015/16</b>
	£000	£000
Cash and Cash Equivalents	10,123	8,339
Fixed Interest Securities	422,864	341,598
	<u>432,987</u>	<u>349,937</u>

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. 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 £4,330k and for 2015/16 asset values, £3,499k.

### 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 +/-9.8%. 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 9.8% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

<b>Asset Type</b>	<b>Value as at 31 March 2017</b>	<b>Value on 9.8% Increase</b>	<b>Value on 9.8% Decrease</b>
	£000	£000	£000
Overseas Equities	1,607,900	1,765,474	1,450,326
Overseas Bonds	93,095	102,218	83,972
<b>Total Assets</b>	<b>1,700,995</b>	<b>1,867,693</b>	<b>1,534,297</b>

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

## **b) 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 2017 was £8.6m (31 March 2016, £3.8m) and was held with the following institutions:

	Credit Rating	31 March 2017 £000	31 March 2016 £000
<b>Call Accounts</b>			
Barclays	A/F1	552	569
Santander UK	A/F1	227	15
<b>Fixed Term Deposit Notice Accounts</b>			
Bank of Scotland	A+/F1	2,396	1,208
Leeds BS	A-/F1	366	71
Nationwide	A/F1	1,127	569
Svenska Handelsbanken	AA/F1+	-	114
Santander UK	A/F1	900	554
Goldman Sachs	A/F1	1,127	426
Lancashire County Council	-	282	142
Leicester FRA	-	-	-
London Borough of Enfield	-	-	71
Salford City Council	-	141	-
Falkirk Council	-	-	71
Fife Council	-	141	-
Hambleton District Council	-	155	-
Isle of Wight Council	-	282	-
West Berkshire District Council	-	113	-
West Dunbartonshire Council	-	310	-
Warrington Borough Council	-	282	-
Woking Borough Council	-	141	-
Northumberland County Council	-	141	-
		<u>8,683</u>	<u>3,810</u>

### c) Liquidity Risk

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

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

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

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31 March 2017 the value of illiquid assets was £55k, which represented less than 0.1% of total Fund assets (31 March 2016, £82k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2017 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.

## 19. 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 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

At the 2016 Valuation the aim was to achieve 100% solvency over a period of 24 years from April 2017 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 2016 Triennial Valuation the Fund was assessed as 90% funded (73% at the 2013 Valuation). This reflected a deficit of £283m (£668m at the 2013 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 2016/17 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 2016 Triennial Valuation Report and the Funding Strategy Statement on the Fund's website.

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

	<b>liabilities</b>	
Investment Return	4.40%	per annum
Inflation	2.00%	per annum
Salary Increases	3.25%	per annum
Pension Increases	2.00%	per annum

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

	<b>Male</b>	<b>Female</b>
Current pensioners	22.7	26.2
Future pensioners (assumed current age 45)	24.9 years	28.5 years

### 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 for post-April 2008 service.

### 50:50 Option

It is assumed that no active members (evenly distributed across the age, service and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

## 20. 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**.

## 21. Current Assets

	2016/17	2015/16
	£000	£000
<b>Debtors</b>		
<b>Investment Debtors</b>		
Investment Transactions	2,490	9,676
Accrued Dividends	2,058	2,122
Withholding Taxes Recoverable	1,686	1,786
	<u>6,234</u>	<u>13,584</u>
<b>Other Debtors</b>		
Contributions due from Scheduled (Government) Bodies	7,449	7,137
Contributions due from Admitted Bodies	429	475
Pensions Rechargeable	301	253
Interest on Deposits		107
Other	496	543
	<u>8,675</u>	<u>8,515</u>
<b>Total Debtors</b>	<b><u>14,909</u></b>	<b><u>22,099</u></b>

## 22. Current Liabilities

	2016/17	2015/16
	£000	£000
<b>Creditors</b>		
Investment Creditors	1,670	10,771
Sundry Other Creditors	1,744	3,759
	<u>3,414</u>	<u>14,530</u>

## 23. Additional Voluntary Contributions

	Market Value 31 March 2017	Market Value 31 March 2016
	£000	£000
Prudential	<u>19,958</u>	<u>19,644</u>

AVC contributions of £1,846k were paid directly to Prudential during the year (£2,036k in 2015/16).

## **24. Agency Services**

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

## **25. 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 £1,231K (£1,136k in 2015/16) 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 £52.2m to the Fund in 2016/17 (£49.2m in 2015/16).

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 2017 the Fund had an average investment balance of -£2.4m (£16.8m during 2015/16) paid interest of £15.1k (£107.5k received in 2015/16) on these funds.

### **Governance**

As at 31 March 2017 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.

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

The Fund had no material contingent liabilities or contractual commitments at the year end (£nil in 2015/16).

## **27. Contingent Assets**

Two 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.

## **28. Impairment Losses**

The Fund had no material impairment losses at the year-end (£nil in 2015/16).

## North Yorkshire Pension Fund

### Statement of the Actuary for the year ended 31 March 2017

#### 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 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

#### Actuarial Position

1. The valuation as at 31 March 2016 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 £2,417.8M) covering 90% of the liabilities in respect of service prior to the valuation date allowing, in the case of pre-1 April 2014 membership for 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 2017 was:
  - 17.8% 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 (the primary rate).

#### 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 24 years, amounting to £13.6M in 2017/18, and increasing by 3.25% p.a. thereafter.
3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health 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. The approach, and the recovery period used for each employer, were agreed with the Administering Authority reflecting the Employers' circumstances.
  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 periods in service	
Scheduled body / subsumption funding target	4.4% p.a.
Orphan body funding target	4.1% p.a.
Discount rate for periods after leaving service	
Scheduled body / subsumption funding target	4.4% p.a.
Orphan body funding target	2.5% p.a.
Rate of pay increases (service up to 31 March 2014 only) (in addition to promotional increases)	3.25% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

In addition, the discount rate for orphaned employers (i.e. employers with no active members and where there is no scheme employer responsible for funding the non-active liabilities) was 2.1% in-service and left-service.

The assets were valued at market value.



Further details of the assumptions adopted for the valuation are 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 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 31 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
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 Aon Hewitt Limited as at 31 March 2016. 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>

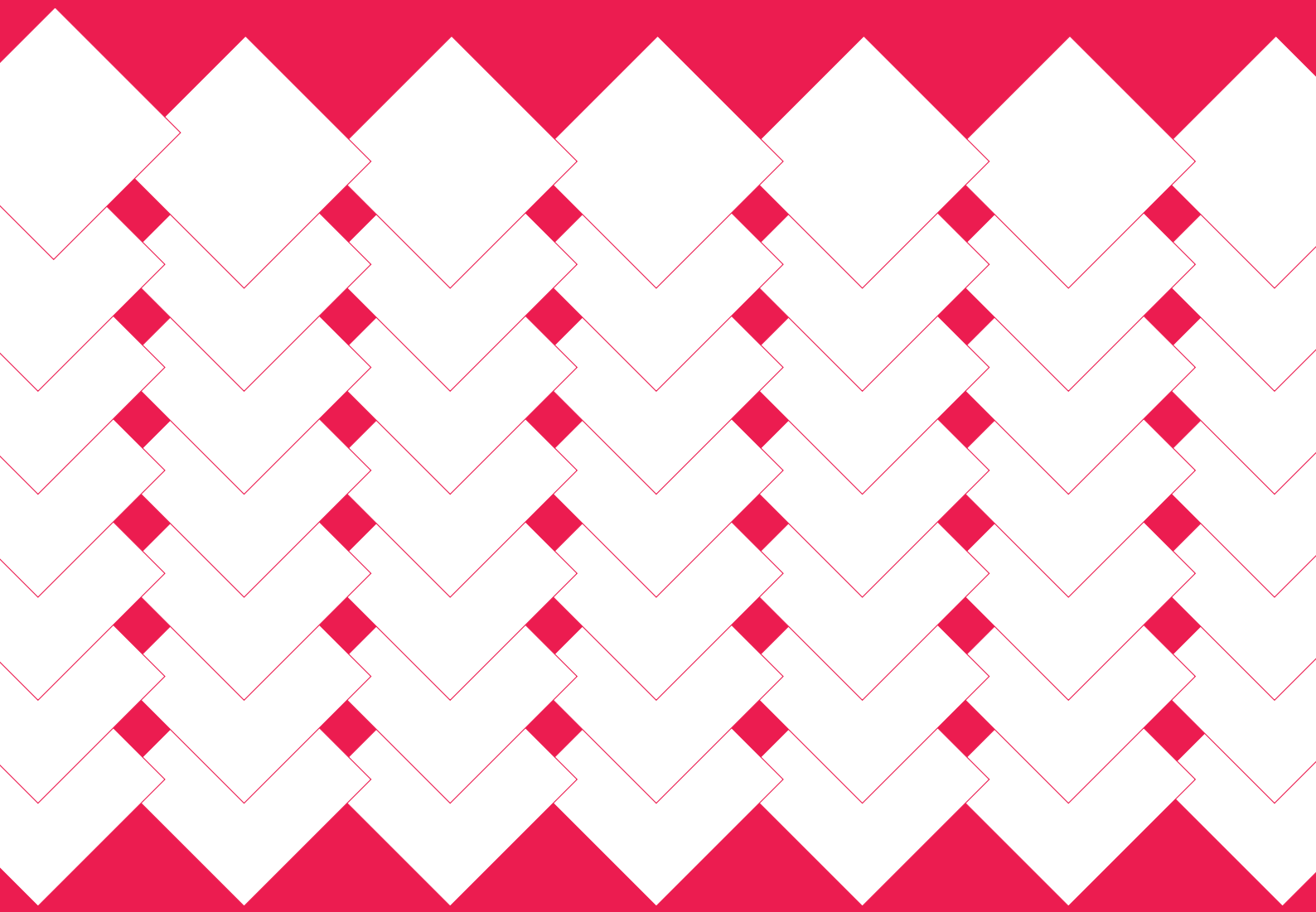
Aon Hewitt Limited

24 May 2017



# North Yorkshire Pension Fund

## Annual Report and Accounts 2016/17



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# 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 2017 was as follows:

Members	Position	Voting Rights
John Weighell (Chairman)	Councillor, NYCC	Yes
Roger Harrison-Topham (Vice-Chairman)	Councillor, NYCC	Yes
Bernard Bateman MBE	Councillor, NYCC	Yes
John Blackie	Councillor, NYCC	Yes
Margaret-Ann deCoursey-Bayley	Councillor, NYCC	Yes
Patrick Mulligan	Councillor, NYCC	Yes
Helen Swiers	Councillor, NYCC	Yes
Jim Clark	Councillor, District Councils’ representative of Local Government North Yorkshire and York	Yes
David Carr	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 (see Part 6).

During the year the PFC formally met on five occasions supported by its 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 Professional Observer	Peter Scales (AllenbridgeEpic)
Actuary	Aon Hewitt
Legal Services	Ward Hadaway 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 Bluebay Dodge & Cox ECM Asset Management FIL Pensions Management Hermes Investment Management Legal & General Investment Management M&G Investment Management Newton Investment Management Permira Standard Life Pension Funds Threadneedle Pensions Veritas Prudential
AVC Provider	

### 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.

(b) Another key risk 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 (see Part 6). Contributions received from employers are monitored, the date of receipt 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 18 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 Government's Department for Communications and Local Government (DCLG) describing in detail how investment pooling arrangements could work. This proposal can be found here <https://www.nypf.org.uk/Documents/Pooling%20proposal.pdf>

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 Scheme's administration is the responsibility of Gary Fielding, the Treasurer.

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 pension records and communications with all stakeholders.

Staff within the Integrated Finance team are responsible for maintaining the Fund's accounts and investment records, preparing quarterly reports to the PFC, producing 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 Team'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 2016/17 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

North Yorkshire Pension Fund covers the largest geographical area in England and Wales. The Fund's varied methods of communication tackle the challenges when communicating with both Fund members and employers. Continued support has been provided for employers to ensure they are confident in carrying out their function under the Scheme. Face to face bespoke training has been provided to encourage employers to use the dedicated employers' area on the NYPF website.

A streamlined year end guide and checklist have been provided with emphasis on data validation at source to minimise error rates.

Following the Education Act 2011 there has been a significant growth in scheme employers largely in respect of Secondary schools converting to Academies and the trend is still continuing with Primary school Academies. A dedicated NYPF contact has provided schools with appropriate actuarial information regarding employer contribution rates and deficits.

Scheme members have access to a dedicated telephone helpline and email address. The online self-service module of the Altair administration system continues to provide members with access to their Annual Benefit Statements. Members are also asked to use the online benefit projector to carry out their own estimated pension benefit calculations. Although members are encouraged to use electronic means of communication, NYPF still provides paper versions of documents on request. This is felt to be particularly important for members who may not have access to, or do not wish to use, electronic methods of communication.

## 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 2017 there were 15,402 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 97% of all statements, are delivered in this way with only 1,325 being posted to members in 2016/17.

## 2.6 NYPF Website

All essential information and guides are held on the website at [www.nypf.org.uk](http://www.nypf.org.uk) 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 prompt response to 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 seven 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 Career Average scheme as NYPF cannot validate the Career Average pay provided by employers. Support is sought where appropriate from the Internal Audit Service in order to encourage 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 (see part 6).

### (b) Investment Management arrangements

As at 31 March 2017 the following investment management arrangements were in place:

- ➔ Baillie Gifford manage 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 manage an active overseas equities (ex UK) portfolio comprising segregated holdings in overseas companies against a composite MSCI World (ex UK) index
- ➔ Standard Life manage an active UK equity portfolio comprising segregated holdings in UK companies against the FTSE 350 equally weighted index (excluding investment trusts)
- ➔ 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 manage an active Gilts portfolio comprising segregated fixed income and index linked holdings, against the “least risk” benchmark
  - ➔ Hermes manage 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 manage active UK Property portfolios 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 objective 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
  - ➔ Bluebay and Permira manage private debt portfolios through pooled Funds, both are managed without reference to a benchmark but have an objective to significantly outperform cash
- The Fund also has a small investment in the Yorkshire & Humber Equity Fund. The residual cost of this investment at the year-end was £0.055m.

The agreed asset class structure for the investment portfolio as at 31 March 2017 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.

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 +24.7% compared to the benchmark return of +21.8%. Performance for the Fund compared with the benchmark for 5 Years is shown below.

Periodic Performance	1 Year	5 Years (p.a.)
North Yorkshire Pension Fund	24.7%	13.6%
Benchmark	21.8%	11.4%
Performance against benchmark	+2.9%	+2.2%

## 3.2 Performance

### (a) Fund and Manager Performance

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 performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2017.

March 2017 compared with their defined benchmarks is shown in the following table:

Fund Manager	Share of Fund @ March 2017	Fund Performance	Customised Benchmark	+/-
	%	%	%	%
Baillie Gifford Life Ltd - Global Alpha	19.9	35.5	33.1	2.4
Baillie Gifford Life Ltd - LTGG	13.8	38.1	33.1	5.0
Fidelity International	11.2	31.0	31.9	-0.9
Veritas	5.1	28.4	33.0	-4.6
Dodge and Cox	5.0	46.1	33.0	13.1
Standard Life Investments - Equities	10.3	23.1	16.8	6.3
ECM Asset Management	3.1	4.9	0.4	4.5
M&G Investment Management Ltd	14.1	24.9	24.0	0.9
Hermes Investment Management Ltd	1.1	6.4	4.6	1.8
Legal & General	2.1	4.0	3.7	0.3
Threadneedle	5.2	3.5	3.7	-0.2
Standard Life (GARS)	4.5	0.5	0.4	0.1
Newton Investments (RR)	3.7	2.2	0.4	1.8
Bluebay	0.2	0.3	3.1	-2.8
Permira	0.2	N/A	N/A	N/A
Internally Managed Cash	0.5	-	-	-
Total Fund	100.0	24.7	21.8	2.9

#### (b) Analysis of Accounts

The Statement of Accounts for the year 2016/17 is shown at Appendix A.

The value of the Fund's assets at 31 March 2016 was £2,418m, and this increased by £618m during the year to give a value of £3,036m at 31 March 2017.

#### Analysis of Fund Account over three years to 2016/7

	2016/17 £000	2015/16 £000	2014/15 £000
Net additions/(withdrawals) from dealings with members	23,205	15,840	(8,299)
Net investment return	3,843	8,705	16,610
Change in market value of investments	590,955	(6,581)	308,342
Net increase/(decrease) in the Fund	618,003	17,964	316,653

#### Analysis of Net Asset Statement over three years to 2016/17

	2016/17 £000	2015/16 £000	2014/15 £000
Fixed Interest Securities	422,864	341,598	161,287
Equities	587,799	488,055	701,918
Pooled Funds	1,742,033	1,391,947	1,335,586
Pooled Property	252,966	176,463	150,011
Private Equity	55	82	82
Cash Deposits	10,123	8,339	27,437
Other	4,382	2,813	4,204
<b>Total Investment Assets</b>	<b>3,020,222</b>	<b>2,409,297</b>	<b>2,380,525</b>
<b>Current Assets and Current Liabilities</b>	<b>15,614</b>	<b>8,536</b>	<b>19,344</b>
<b>Net Assets of the Fund</b>	<b>3,035,836</b>	<b>2,417,833</b>	<b>2,399,869</b>



**(c) Accounting and Cash Flow**

Prior to the start of the 2016/17 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 2016/17 forecast a net cash surplus of £13.5m. The actual surplus for the year was £16.4m, resulting in an overall cash flow of £2.9m above expectations.**

	Budget 2016/17£m	Actual Income / Expenditure £m	Variance £m
Expenditure			
Benefits	102.0	104.4	2.4
Administration	1.6	1.7	0.1
Investment Expenses	8.3	7.2	-1.1
Total Expenditure	111.9	113.3	1.4
Income			
Employer and Employee contributions	110.5	126.0	15.5
Transfers	3.0	2.4	-0.6
Other Income	1.3	1.3	0.0
Total Income	114.8	129.7	14.9
Net Surplus	2.9	16.4	13.5

The main reason for the variance is due to an additional deficit payment being paid in full by an employer during the year.

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

# Part 4 – Pension Administration Activity

The number of staff (in FTE terms) at the Council involved in Pension Administration was 23.70.

## (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 2017 is shown here:

Performance Indicator	LGPC Target	Achieved (%)
Letter detailing transfer in quote	10 days	99.20
Letter detailing transfer out quote	10 days	94.75
Process and pay refund	5 days	98.70
Letter notifying estimate of retirement benefits	10 days	98.43
Letter notifying actual retirement benefits	5 days	100.00
Process and pay lump sum retirement grant	5 days	100.00
Initial letter acknowledging death of active/deferred/pensioner member	5 days	91.54
Letter notifying amount of dependant's benefits	5 days	91.54
Calculate and notify deferred benefits	10 days	95.07

## (b) Benefit Calculation Activity

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

Task	Number
Retirements	1,575
Transfers In	125
Refunds	564
Frozen Refunds	1,025
Preserved Benefits	2,638
AVCs/ARCs	10
Divorce cases	179
Deaths in Service	29
Deaths of Pensioners	509

## (c) Administration

The total numbers of joiners and leavers during 2016/17 were:

Joining	7,249
Retiring	1,328
Deaths	572
Other Leavers	3,460

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 2016/17 include:

- Continued to promote online member self-service and encourage members to check their online Annual Benefit Statement, paying particular attention to their Career Average Benefits
- Encouraged members to plan for their retirement by providing pre-retirement presentations in conjunction with Affinity Connect. Information regarding financial planning and lifestyle adjustments were provided
- Managing the member's expectations by developing a simple flowchart explaining the timeline of the retirement process. This shows the flow of data between the employer and the pension fund from the time the member notifies their employer of their intention to retire, to the payment of their pension benefits
- Developed relationships with new employers to support them with the requirements of the LGPS. There has been a significant growth in scheme employers largely in respect of secondary schools converting to academies and the trend is still continuing with primary school academies.
- Offering face to face training and support for new employers or new staff within existing employers
- Dedicated newsletter for retired members
- Processes have been updated to encourage deferred members to 'opt into' electronic communications. This will allow a quicker and more efficient retirement process when the member wants to claim their pension benefits. It also allows regular updates to be provided more frequently. It will increase the number of newsletters which can be sent via email rather than by post, saving on printing and postage.

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 or fire-fighters for which separate statutory arrangements exist.

Membership of the LGPS is not compulsory, although employees who are 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 2013	31 March 2014	31 March 2015	31 March 2016	31 March 2017
Current Contributors	29,036	31,501	35,056	31,748	33,559
Deferred Pensions	27,503	29,490	30,591	32,079	33,147
Pensioners Receiving Benefits	16,755	17,668	18,444	19,793	20,441

## 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 (see Part 6).

The total contributions received for 2016/17 on an accruals basis were £127.3m, and North Yorkshire County Council being the main employer in the Fund contributed £52.2m.

## 5.3 Employer Analysis

At 31 March 2017 there were 140 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	95	9	104
Admitted Body	45	17	62
<b>Total</b>	<b>140</b>	<b>26</b>	<b>166</b>

## 5.4 Employee Contribution 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	Up 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 - £101,200	10.5%
8	£101,201 - £151,800	11.4%
9	£151,801 or more	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 2016 Valuation are shown at <https://www.nypf.org.uk/Documents/NorthYorkshirePensionFund-ActuarialValuationasat31March2016.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. Pensions and lump sums 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 1/49th of pensionable pay for each year.

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 as 1/80th for each year of membership of the scheme for service up to 31 March 2008 and as 1/60th for service after 1 April 2008.



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 80ths and 60ths accrual for membership up to 31 March 2014. A pension of 1/49th 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. This is based on 1/49th 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 some 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 some gainful employment within 3 years of leaving the employee receives payment of the benefits built up to the date of leaving with no enhancement. The benefits are only payable for a maximum period of 3 years (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 3/80ths 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 their 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 equal to the current value of the deferred retirement lump sum for leavers prior to 1 April 2008, or five times the preserved annual pension for leavers on or after this date is payable to the member's spouse, or nominee.

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

Any surviving spouse, cohabiting partner or civil partner is entitled to a pension based on 1/160th 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 1/160th of career average pensionable pay.

Benefits are payable to a cohabiting partner provided that the Scheme member paid into the LGPS on or after 1 April 2008.

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.

**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 Prudential as the nominated provider for this purpose. Further details are available from Prudential on 0800 032 6674.



# Part 6 – Governance Documentation

## The main governance documentation is as follows:

- **Statement of Investment Principles**  
<https://www.nypf.org.uk/Documents/Investment%20Strategy%20Statement%20-%20February%202017.pdf>
- **Governance Compliance Statement**  
<https://www.nypf.org.uk/Documents/Governance%20Compliance%20Statement%202015.pdf>
- **Funding Strategy Statement**  
<https://www.nypf.org.uk/Documents/Funding%20Strategy%20Statement-%20Feb%202017.pdf>
- **Communications Policy Statement**  
<https://www.nypf.org.uk/Documents/Comms%20Policy%20Statement%20-%20June%202017.pdf>
- **Pension Administration Strategy**  
<https://www.nypf.org.uk/nypf/policiesandstrategies.shtml>

A short summary of each Statement is included here. The full Statements are available at the links above.

### (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 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 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. 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 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 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 contribution rates for employers as 'nearly constant'
- 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, assumptions and results of 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.

### (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.

# 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 fund 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) Internally Provided

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 2016/17 were:

Event	Date
Investment Conference	9-11 March 2016
NAPF Investment Conference	16-18 May 2016
NYCC Investment Manager Meeting	20 May 2016
LGC Investment Summit	7-9 September 2016
NYCC Investment Manager Meeting	16 September 2016
Baillie Gifford LGPS Pension Seminar	5-6 October 2016
PLSA Annual Conference	19-21 October 2016
PLSA Local Authority Conference	2 November 2016
Investment Strategy Review	25 November 2016
LAPFF Conference	7-9 December 2016
NYCC Investment Manager Meeting	24 February 2017
LGC Investment Seminar	2-3 March 2017
PLSA Investment Conference	8-10 March 2017

# Part 8 – Glossary and contact details

## Active member:

Current employee who is contributing to a pension fund.

## Actuary:

An independent professional who advises the Council on the financial position of the fund.

Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

## Additional Voluntary contributions (Avc):

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

## Administering Authority:

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

## Admitted Body:

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

## 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 added so it keeps its value in line with inflation.

## 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 member is calculated with reference to a formula and is 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 any 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



# APPENDIX A

## Statement of responsibilities for the financial statements

Responsibility for the Financial Statements, which form part of this Annual Report, is set out below.

a) The Administering Authority

The Administering Authority is North Yorkshire County Council. The Administering Authority is required to:

- make arrangements for the proper administration of the financial affairs of the Fund and to secure that an officer has the responsibility for the administration of those affairs. In this Authority, that officer is the Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

b) Treasurer

The Treasurer is responsible for the preparation of the Fund's Financial Statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom Based on International Reporting Standards (the Code). This document includes the financial statements for the Pension Fund only. The financial statements of North Yorkshire County Council are published separately.

In preparing these financial statements, the Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Treasurer has also:

- kept proper accounting records, which were up to date; and
- taken responsible steps for the prevention and detection of fraud and other irregularities.

Certificate

I hereby certify that the Annual Report and Accounts give a true and fair view of the financial position of the North Yorkshire Pension Fund as at 31 March 2016 and its income and expenditure for the financial year then ended.

### Gary Fielding

Treasurer  
North Yorkshire Pension Fund  
14 September 2017

## North Yorkshire Pension Fund Fund Account For The Year Ended 31 March 2017

2015/16		2016/17
£000		£000      £000
	<b>CONTRIBUTIONS AND BENEFITS</b>	
	<b>Contributions</b>	
57,626	Employers - Normal	58,793
25,765	- Deficit	38,953
2,572	- Early Retirement Costs Recharged	3,091
25,492	Employees - Normal	26,226
233	- Additional Voluntary	187
<u>111,688</u>	<b>Total Contributions Receivable (Note 7)</b>	<u>127,250</u>
8,680	<b>Transfers In (Note 8)</b>	11,959
	<b>Less</b>	
	<b>Benefits</b>	
(73,274)	Pensions	(76,846)
(23,176)	Commutation and Lump Sum Retirement Benefits	(23,693)
(2,282)	Lump Sums Death Benefits	(3,664)
<u>(98,732)</u>	<b>Total Benefits Payable (Note 9)</b>	<u>(104,203)</u>
	Leavers	
(364)	Refunds to Members Leaving Service	(267)
0	Payments for Members Joining State Scheme	0
(3,603)	Transfers Out	(9,280)
<u>(3,967)</u>	<b>Total Payments on Account of Leavers (Note 10)</b>	<u>(9,547)</u>
(1,829)	<b>Management Expenses (Note 11)</b>	(2,255)
<u>15,840</u>	<b>Net Additions From Dealings With Members</b>	<u>23,205</u>
	<b>RETURNS ON INVESTMENTS</b>	
16,963	Investment Income (Note 12)	18,330
(290)	Taxation (Note 13)	(256)
(7,968)	Investment Management Cost (Note 11)	(14,231)
(6,581)	Change in market value of investments (Note 14a)	590,955
<u>2,124</u>	Net Returns On Investments	<u>594,798</u>
17,964	Net Increase in the Fund During the Year	618,003
2,399,869	Opening Net Assets of the Fund	2,417,833
<u>2,417,833</u>	Closing Net Assets of the Fund	<u>3,035,836</u>

## North Yorkshire Pension Fund - Net Assets Statement

31 March 2016		31 March 2017
£000		£000
	<b>INVESTMENT ASSETS (Notes 15 &amp; 16)</b>	
341,598	Fixed Interest Securities	422,864
488,055	Equities	587,799
1,391,947	Pooled Investments	1,742,033
176,463	Pooled Property Investments	252,966
82	Private Equity	55
<u>2,398,145</u>		<u>3,005,717</u>
8,339	Cash Deposits	10,123
13,584	Investment Debtors	6,234
<u>2,420,068</u>	<b>TOTAL INVESTMENT ASSETS</b>	<u>3,022,074</u>
	<b>INVESTMENT LIABILITIES (Notes 14 &amp; 15)</b>	
0	Derivative Contracts - Forward Currency Contracts	(182)
(10,771)	Investment Creditors	(1,670)
<u>(10,771)</u>	<b>TOTAL INVESTMENT LIABILITIES</b>	<u>(1,852)</u>
<u>2,409,297</u>	<b>NET INVESTMENT ASSETS</b>	<u>3,020,222</u>
	<b>CURRENT ASSETS</b>	
7,612	Contributions due from employers	7,878
903	Other Non-Investment Debtors	797
3,780	Cash	8,683
<u>12,295</u>	<b>TOTAL CURRENT ASSETS</b>	<u>17,358</u>
	<b>CURRENT LIABILITIES</b>	
(3,759)	Non-investment creditors	(1,744)
<u>(3,759)</u>	<b>TOTAL CURRENT LIABILITIES</b>	<u>(1,744)</u>
<u>2,417,833</u>	<b>TOTAL NET ASSETS (Note 17)</b>	<u>3,035,836</u>

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 2017

## 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 2016/17 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 2016

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 2017 there were 140 contributing employer organisations within NYPF including the County Council itself, and over 87,000 individual members, as detailed overleaf:

95 Scheduled Bodies incl 52 Academies	Academy Trusts
Ainsty 2008 Internal Drainage Board	Bishop Wheeler Academy Trust Bodies
Askham Bryan College	- Mary's RC School
Chief Constable NYP	- St Stephen's RC School
City of York Council	- St. Joseph's School
Craven College	Craven Education Trust
Craven District Council	- The Skipton Academy
Easingwold Town Council	Ebor Academy Trust
Filey Town Council	- Brotherton and Byram School
Foss 2008 Internal Drainage Board	- Haxby Road Academy
Fulford Parish Council	- Staynor Hall
Glusburn Parish Council	- Filey School Academy
Great Ayton Parish Council	- Camblesworth CP School
Hambleton District Council	- Robert Wilkinson Primary Academy
Harrogate Borough Council	Enquire Learning Trust
Haxby Town Council	- Roseberry Academy
Hunmanby Parish Council	- East Whitby C.P.
Knaresborough Town Council	- Stokesley C.P.
Malton Town Council	Hope Learning Trust
North York Moors National Park	- Manor Academy
North Yorkshire County Council	- Poppleton Ousebank School
North Yorkshire Fire and Rescue	- Burton Green Primary
North Yorkshire Police and Crime Commissioner	- Forest of Galtres
Northallerton & Romanby JBB	Northern Star Academy Trust
Northallerton Town Council	- Harrogate High
Norton on Derwent Town Council	- Hookstone Chase Primary School
Pickering Town Council	- New Park Academy
Richmond Town Council	- Skipton Girls High School
Richmondshire District Council	Pathfinder Academy Trust
Ripon City Council	- Archbishop Holgate

95 Scheduled Bodies incl 52 Academies	Academy Trusts
Ryedale District Council	- Badger Hill
Scarborough Borough Council	- Hempland Primary
Scarborough Sixth Form College	- Heworth Primary
Selby College	Red Kite Learning Trust
Selby District Council	- Harrogate Grammar
Selby Town Council	- Oatlands Junior School
Skipton Town Council	- Western CP School
Sutton in Craven Parish Council	Rodillian Multi Academy Trust
Tadcaster Town Council	- Brayton High School
Thornton (Vale of Pickering) IDB	Scalby Learning Trust
Whitby Town Council	- Scalby School
York College	South Bank Multi Academy Trust
	- Knavesmire
Yorkshire Dales National Park	- Millthorpe
University Technical College Scarborough	- Scarcroft
Great Smeaton Academy Primary School	South Craven Academy Trust
Huntington Primary Academy	- South Craven School
Norton College	Vale of York Academy Trust
Outwood Academy	- Canon Lee
Rossett School	YA Collaboration Trust
Stokesley School Academy	- Askwith School
The Grove Academy	- Bilton Grange School
The Woodlands Academy	- Lothersdale Schools
Thomas Hinderwell Primary Academy	Yorkshire Causeway Trust
	- Richard Taylor School
	- St Aidans CE School
	- Oatlands Infant School
	- Pannal Primary School
	- St Peter's CE Primary School

45 Admitted Bodies	
Be Independent	Mellors
Betterclean Services	Northern Care (Whistledawn)
Bulloughs Cleaning Ltd	North Yorkshire Property Services
Catering Academy Ltd	OCS Group UK Ltd
Caterservice Ltd	Richmondshire Leisure Trust
Chartwells Compass	Ringway Operatives
Churchill	Sanctuary Housing Association
Everyone Active (SLM Scarborough)	Schools Plus
Consultant Services Group	Sewell Facilities Management
Dolce Ltd	Sheffield International Venues
Enterprise	
Explore York Libraries and Archives	Springfield Home Care
Grosvenor Facilities Management	Streamline Taxis
Harrogate International Centre	Superclean Services Group
Housing 21	University of Hull
Human Support Group Ltd	Veritau Ltd
Hutchison Catering	Veritau North Yorks
Independent Cleaning Services	Welcome to Yorkshire
Interserve	Wigan Leisure and Culture Trust
ISS Mediclean Ltd	York Archaeological Trust Ltd
Joseph Rowntree Charitable Trust	York Museums and Galleries Trust
Lifeways Community Care Ltd	York St John University
Make It York	Yorkshire Coast Homes

45 Admitted Bodies	31 March 2017 No	31 March 2016 No
Number of Employers with Active Members	140	125
Employees in the Fund		
NYCC	19,528	20,497
Other employees	14,031	13,493
<b>Total</b>	<b>33,559</b>	<b>33,990</b>
Pensioners		
NYCC	11,017	10,623
Other employees	9,424	9,087
<b>Total</b>	<b>20,441</b>	<b>19,710</b>
Deferred pensioners		
NYCC	20,318	19,560
Other employees	12,829	12,409
<b>Total</b>	<b>33,147</b>	<b>31,969</b>

## 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 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 that set the contribution rates for 2017/18, 2018/19, 2019/20; details of the rates for individual employers are available on the Fund's website. The contribution rates in 2016/17 were set at the 2013 Valuation.

## 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 2016/17 financial year and its year end position as at 31 March 2017.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 that have been paid during the financial year.

**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) Management expenses**

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the fund discloses its pension fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

**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.

**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
- Hermes Investment Management- UK Property
- Bluebay- Private Debt
- Permira- Private Debt

Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund accounts.

#### Net Assets Statement

##### g) 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.

##### h) 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.

##### i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities.

##### j) 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.

##### k) 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.

##### l) 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.

##### m) 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(1)(b) of the LGPS (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

#### 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 2017 was £55k (31 March 2016, £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 19. 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 2017 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 1.9%, a 0.1% increase in inflation would increase liabilities by 1.9%, and an increase in life expectancy of one year would increase liabilities by 2.9%.

#### 6. Events After the Reporting Date

There have been no Post Balance Sheet Events.

## 7. Contributions Receivable

By category	2016/17 £000	2015/16 £000
<b>Employees' contribution</b>	26,413	25,725
<b>Employers' contribution</b>		
Normal contributions	58,793	57,626
Deficit recovery contributions	38,953	25,765
Early Retirement Recharges	2,602	2,572
Compensatory Added Years Recharges	489	0
Total Employer's contributions	127,250	111,688
By authority	2016/17 £000	2015/16 £000
<b>Contributions Receivable</b>		
North Yorkshire County Council	52,208	49,156
Other Scheduled Bodies	68,944	55,521
Admitted Bodies	6,098	7,011
	127,250	111,688

## 8. Transfers in from other Pension Funds

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

## 9. Benefits payable

	2016/17 £000	2015/16 £000
Benefits Payable		
North Yorkshire County Council	44,144	42,069
Other Scheduled Bodies	53,056	49,115
Admitted bodies	7,003	7,548
	104,203	98,732

## 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

	2016/17 £000	2015/16 Restated £000	2015/16 Original £000
Administrative Costs	1,852	1,412	1,412
Investment Management Costs	14,231	14,407	7,968
Oversight and Governance Costs	403	417	417
	16,486	16,235	9,797

Investment Management Costs includes £1,990k (2015/16: £3,947K) in respect of performance related fees payable to the Fund's investment managers and £2,638k in respect of transaction costs (2015/16 £2,900k).

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).

### 11A. Investment Management Expenses

	2016/17 £000	2015/16 £000
Management Fees	8,597	6,637
Performance Related Fees	1,990	3,947
Custody Fees	81	97
Transaction Costs	2,638	2,900
Other	925	825
	14,231	14,407

## 12. Investment Income

	2016/17 £000	2015/16 £000
Income from bonds	2,829	£2,301
Income from equities	13,507	12,683
Pooled Property Investments	1,313	1,265
Pooled Investments - Other Managed Funds	0	63
Interest on Cash Deposits	3	81
Other	678	570
	18,330	16,963

## 13. Taxes on Income

	2016/17	2015/16
	£000	£000
Withholding Tax on Dividends	256	290

## 14. Investments

## a) Reconciliation of Movements in Investments and Derivatives

	Value at 31 March 2017	Change in market value at 31 March 2017	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2016
	£000	£000	£000	£000	£000
Fixed Interest Securities	422,865	82,714	(1,232,108)	1,230,661	341,598
Equities	587,799	110,792	(287,072)	276,024	488,055
Pooled Investments	1,742,033	384,244	(51,545)	17,387	1,391,947
Pooled Property	252,966	13,387	(146,665)	209,781	176,463
Private Equity	55	0	(27)	0	82
Derivative Contracts	(182)	(182)	0	0	0
Total Invested	3,005,536	590,955	(1,717,417)	1,733,853	2,398,145
Cash Deposits	10,123				8,339
Net Investment Debtors	4,563	1,750			2,813
Net Investment Assets	3,020,222	592,705			2,409,297

	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 Securities	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)	2,348,884	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

## b) Analysis of Investments (excluding derivative contracts)

	2016/17	2015/16
	£000	£000
Fixed Interest Securities		
UK Public Sector Quoted	422,682	341,598
Equities		
UK Quoted	308,717	274,721
Overseas Quoted	279,082	213,334
	587,799	488,055
Pooled Investments		
UK Equity	70,283	65,403
UK Property	252,966	176,463
UK Fixed Income	-	-
Overseas Equity	1,328,818	950,427
Overseas Fixed Income	93,095	129,395
	1,745,162	1,321,688
Diversified Growth Funds - UK	249,837	246,722
Private Equity - UK	55	82
Total Investments (excl Derivatives)	3,005,536	2,398,145
Cash Deposits	10,123	8,339
Net Investment Debtors	4,563	2,813
Net Investment Assets	3,020,222	2,409,297



## c) Investments analysed by Fund Manager

Investment Manager	31 March 2017		31 March 2016	
	£000	%	£000	%
Baillie Gifford & Co. - Global Alpha	604,424	19.9	445,906	18.4
Baillie Gifford & Co. - LTGG	418,471	13.8	303,055	12.5
Fidelity International	340,419	11.2	259,850	10.7
Standard Life Investments - Equities	312,208	10.3	279,634	11.6
Standard Life Investments - DGF	138,060	4.5	137,312	5.7
ECM Asset Management	93,095	3.1	129,394	5.4
Hermes Property Unit Trust	32,866	1.1	32,113	1.3
Legal & General	62,453	2.1	60,029	2.5
Threadneedle	158,237	5.2	84,911	3.5
M&G Investments	427,134	14.1	342,475	14.2
Newton Investments	111,778	3.7	109,409	4.5
Dodge & Cox	153,007	5.0	104,730	4.3
Veritas	154,599	5.1	120,397	5.0
Bluebay	7,570	0.2	0	0.0
Permira	5,850	0.2	0	0.0
Currency Hedging	0	0.0	(1)	0.0
Yorks & Humber Equity Fund	52	0.0	82	0.0
Internally Managed (cash and net debtors)	15,614	0.5	8,537	0.4
	3,035,836	100.00	2,417,833	100.00

The investments with Baillie Gifford, Threadneedle and Veritas 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. are either below 5% or constitute a portfolio of segregated assets.

Type	Expires	Economic Exposure	Market Value 31 March 2016	Economic Exposure	Market Value 31 March 2017
		£000	£000	£000	£000
<b>Liabilities</b>					
UK Fixed Interest	Less than one year	-	-	(182)	(182)

## 16. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided 32
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Quoted bonds</b>	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
<b>Futures and options in UK bonds</b>	Level 1	Published exchange prices at the year-end	Not required	Not required
<b>Exchange traded pooled investments</b>	Level 1	Closing bid value on published exchanges	Not required	Not required
<b>Unquoted bonds</b>	Level 2	Average of broker prices	Evaluated price feeds	Not required
<b>Forward foreign exchange derivatives</b>	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
<b>Overseas bond options</b>	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
<b>Pooled investments – overseas unit trusts and property funds</b>	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price	NAV-based pricing set on a forward pricing basis	Not required

## Fair Value – Basis of Valuation...Continued

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided 32
<b>Pooled investments – hedge funds</b>	Level 3	Closing bid price where bid and offer prices are published  Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts  31. Required by 6.5.5.1 d) and f), 7.4.2.13 of the Code.
<b>Notes to the North Yorkshire Pension Fund Account for the year ended 31 March 2017 Page 31 Description of asset</b>	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided

## Fair Value – Basis of Valuation...Continued

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided 32
<b>Freehold and leasehold properties</b>	Level 3	Valued at fair value at the year-end using the investment method of valuation by John Finley FRICS of independent valuers Carrott-Jones LLP in accordance with the RICS Valuation Standards (9th Edition)	Existing lease terms and rentals  Independent market research  Nature of tenancies  Covenant strength for existing tenants  Assumed vacancy levels  Estimated rental growth  Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
<b>Unquoted equity</b>	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple  Revenue multiple  Discount for lack of marketability  Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

Assessed valuation range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
	£000	£000	£000
<b>Pooled investments – hedge funds</b>			
Freehold and leasehold property			
Unquoted overseas equity			
Private equity	55		
<b>Total</b>	55		

### 16a: Fair Value Hierarchy

#### Level 1

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

#### Level 2

Assets and liabilities 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.

#### Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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

Values at 31 March 2017	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	2,729,536	309,841	55	3,039,432
Non-financial assets at fair value through profit and loss				0
Financial liabilities at fair value through profit and loss	(3,596)			(3,596)
<b>Net investment assets</b>	2,725,940	309,841	55	3,035,836

Values at 31 March 2016	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
<b>Financial assets at fair value through profit and loss</b>	2,105,546	326,735	82	2,432,363
<b>Non-financial assets at fair value through profit and loss</b>				0
<b>Financial liabilities at fair value through profit and loss</b>	(14,530)			(14,530)
<b>Net investment assets</b>	2,091,016	326,735	82	2,417,833

Following a review of investment characteristics, some investments held by the Fund have been categorised as Level 2 investments in 2016/17. These investments were also held in 2015/16 they have also been restated in the table above.

## 17. 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 2016				31 March 2017		
Designated as fair value through profit & loss £000	Loans & Receivables £000	Financial liabilities amortised at cost £000		Designated as fair value through profit & loss £000	Loans & Receivables £000	Financial liabilities amortised at cost £000
			Assets			
341,598			Fixed Interest Securities	422,864		
488,055			Equities	587,799		
1,145,224			Pooled Investments	1,492,196		
176,463			Pooled Property	252,966		
246,722			Diversified Growth Funds	249,837		
82			Private Equity	55		
			Derivative contracts			
	12,120		Cash		18,806	
13,584	0		Investment Debtors	6,234		
	8,515		Non Investment Debtors		8,675	
2,411,728	20,635	0		3,011,951	27,481	0
			Liabilities			
0			Derivative Contracts	182		
10,771			Investment Creditors	1,670		
		3,759	Non Investment Creditors			1,744
10,771	0	3,759		1,852	0	1,744
2,400,957	20,635	(3,759)		3,010,999	27,481	1,744

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

	2016/17	2015/16
	£000	£000
Fair Value Through Profit & Loss	590,955	(6,581)
Loans and Receivables	37	(20,489)
	590,992	(27,070)

## 18. 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 reviewed regularly to reflect changes in activity and in market conditions.

The risk register covers a broad range of risks in addition to the solvency of the Fund, including but not limited to, investment strategy, pooling arrangements and key personnel risks.

### 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 2017/18 reporting period.

Asset Type	Potential Market Movements (+/-) %
Cash and Cash Equivalents	1.0
UK Bonds	9.0
UK Equities	19.0
Overseas Equities	20.5
UK Pooled Equities	19.0
Overseas Pooled Equities	20.5
UK Pooled Bonds	9.0
Overseas Pooled Bonds	11.0
Pooled Property Investments	12.5
Diversified Growth Funds	10.5
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 2017	Potential Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and Cash Equivalents	10,123	101	10,224	10,022
UK Bonds	422,864	38,058	460,922	384,806
UK Equities	308,717	58,656	367,373	250,061
Overseas Equities	279,082	57,212	336,294	221,870
UK Pooled Equity	70,283	13,354	83,637	56,929
Overseas Pooled Equity	1,328,818	272,408	1,601,226	1,056,410
UK Pooled Bonds	0	0	0	0
Overseas Pooled Bonds	93,095	10,240	103,335	82,855
Pooled Property Investments	252,966	31,621	284,587	221,345
Diversified Growth Funds	249,837	26,233	276,070	223,604
Private Equity	55	15	70	40
Derivatives	(182)	0	(182)	(182)
Non Investment Debtors/Creditors	6,931	0	6,931	6,931
Total Assets	3,022,589		3,530,487	2,514,691

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

**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 2017 and 31 March 2016 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2016/17	2015/16
	£000	£000
Cash and Cash Equivalents	10,123	8,339
Fixed Interest Securities	422,864	341,598
	432,987	349,937

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 £4,330k and for 2015/16 asset values, £3,499k.

### 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 +/-9.8%. 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 9.8% 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 2017	Value on 9.8% Increase	Value on 9.8% Decrease
	£000	£000	£000
Overseas Equities	1,607,900	1,765,474	1,450,326
Overseas Bonds	93,095	102,218	83,972
Total Assets	1,700,995	1,867,693	1,534,297

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

### 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 2017 was £8.6m (31 March 2016, £3.8m) and was held with the following institutions:

	Credit Rating	31 March 2017	31 March 2016
		£000	£000
<b>Call Accounts</b>			
Barclays	A/F 1	552	569
Santander UK	A/F 1	227	15
<b>Fixed Term Deposit Notice Accounts</b>			
Bank of Scotland	A+/F1	2,396	1,208
Leeds BS	A-/F1	366	71
Nationwide	A/F 1	1,127	569
Svenska Handelsbanken	AA/F1+	-	114
Santander UK	A/F1	900	554
Goldman Sachs	A/F1	1,127	426
Lancashire County Council	-	282	142
Leicester FRA	-	-	-
London Borough of Enfield	-	-	71
Salford City Council	-	141	-
Falkirk Council	-	-	71
Fife Council	-	141	-
Hambleton District Council	-	155	-
Isle of Wight Council	-	282	-
West Berkshire District Council	-	113	-
West Dunbartonshire Council	-	310	-
Warrington Borough Council	-	282	-
Woking Borough Council	-	141	-
Northumberland County Council	-	141	-
		8,683	3,810

### 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 2017 the value of illiquid assets was £55k, which represented less than 0.1% of total Fund assets (31 March 2016, £82k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2017 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.

### 19. 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 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

At the 2016 Valuation the aim was to achieve 100% solvency over a period of 24 years from April 2017 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 2016 Triennial Valuation the Fund was assessed as 90% funded (73% at the 2013 Valuation). This reflected a deficit of £283m (£668m at the 2013 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 2016/17 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 2016 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:

	Liabilities
Investment Return	4.40% per annum
Inflation	2.00% per annum
Salary Increases	3.25% per annum
Pension Increases	2.00% per annum

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

	Male	Female
Current pensioners	22.7	26.2
Future pensioners (assumed current age 45)	24.9 years	28.5 years

### 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 for post-April 2008 service.

### 50:50 Option

It is assumed that no active members (evenly distributed across the age, service and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

### 20. 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.

### 21. Current Assets

	2016/17 £000	2015/16 £000
<b>Debtors</b>		
<b>Investment Debtors</b>		
Investment transactions	2,490	9,676
Accrued Dividends	2,058	2,122
Withholding Taxes Recoverable	1,686	1,786
	6,234	13,584
<b>Other Debtors</b>		
Contributions due from Scheduled (Government) Bodies	7,449	7,137
Contributions due from Admitted Bodies	429	475
Pensions Rechargeable	301	253
Interest on Deposits		107
Other	496	543
	8,675	8,515
<b>Total Debtors</b>	<b>14,909</b>	<b>22,099</b>

**22. Current Liabilities**

	2016/17	2015/16
	£000	£000
Investment Creditors	1,670	10,771
Sundry Other Creditors	1,744	3,759
	3,414	14,530

**23. Additional Voluntary Contributions**

	Market Value 31 March 2017	Market Value 31 March 2016
	£000	£000
Prudential	19,958	19,644

AVC contributions of £1,846k were paid directly to Prudential during the year (£2,036k in 2015/16).

**24. Agency Services**

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

**25. 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 £1,231K (£1,136k in 2015/16) 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 £52.2m to the Fund in 2016/17 (£49.2m in 2015/16).

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 2017 the Fund had an average investment balance of -£2.4m (£16.8m during 2015/16) paid interest of £15.1k (£107.5k received in 2015/16) on these funds.

**Governance**

As at 31 March 2017 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.

**26. Contingent Liabilities and Contractual Commitments**

The Fund had no material contingent liabilities or contractual commitments at the year end (£nil in 2015/16).

**27. Contingent Assets**

Two 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.

**28. Impairment Losses**

The Fund had no material impairment losses at the year-end (£nil in 2015/16).

# APPENDIX B

**North Yorkshire Pension Fund Statement of the Actuary for the year ended 31 March 2017****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 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

**Actuarial Position**

**1.** The valuation as at 31 March 2016 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 £2,417.8M) covering 90% of the liabilities in respect of service prior to the valuation date allowing, in the case of pre-1 April 2014 membership for 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 2017 was:

- 17.8% 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 (the primary rate).

**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 24 years, amounting to £13.6M in 2017/18, and increasing by 3.25% p.a. thereafter.

**3.** In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health 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. The approach, and the recovery period used for each employer, were agreed with the Administering Authority reflecting the Employers' circumstances.

**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 periods in service Scheduled body / subsumption funding target Orphan body funding target	4.4% p.a.
Orphan body funding target	4.1% p.a.
Discount rate for periods after leaving service Scheduled body / subsumption funding target Orphan body funding target	4.4% p.a. 2.5% p.a.
Rate of pay increases (service up to 31 March 2014 only) (in addition to promotional increases)	3.25% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

In addition, the discount rate for orphaned employers (i.e. employers with no active members and where there is no scheme employer responsible for funding the non-active liabilities) was 2.1% in-service and left-service.



The assets were valued at market value.

Further details of the assumptions adopted for the valuation are 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 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

**7.** The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 31 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

**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 Aon Hewitt Limited as at 31 March 2016. 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  
24 May 2017.

## APPENDIX C

### Independent auditor's report to the members of North Yorkshire County Council on the pension fund financial statements published with the North Yorkshire Pension Fund Annual Report

We have examined the pension fund financial statements for the year ended 31 March 2016 on pages 29 to 54.

#### Respective responsibilities of the Treasurer and the auditor

As explained more fully in the Statement of Responsibilities for the Financial Statements, the Treasurer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of North Yorkshire County Council, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

#### Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of North Yorkshire County Council for the year ended 31 March 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

#### Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Rashpal Khangura  
For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants

1 Sovereign Square, Sovereign Street, Leeds  
LS1 4DA . 29 September 2016

## Contact us

**North Yorkshire County Council, County Hall, Northallerton, North Yorkshire, DL7 8AD**

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(closed weekends and bank holidays). Tel: **01609 780 780**

email: **customer.services@northyorks.gov.uk** web: **www.northyorks.gov.uk**

If you would like this information in another language or format please ask us.

Tel: **01609 780 780** email: **customer.services@northyorks.gov.uk**

**NORTH YORKSHIRE COUNTY COUNCIL****PENSION COMMISSION****14 SEPTEMBER 2017****Implementation of the Markets in Financial Instruments Derivative (MiFID II)****1. Report summary**

- 1.1. This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3<sup>rd</sup> January 2018 and recommends that the committee agree that elections for professional client status should be made on behalf of the authority immediately.

**2. Context**

- 2.1. Under the current UK regime, local authorities are automatically categorised as ‘per se professional’ clients in respect of non-MiFID scope business and are categorised as ‘per se professional’ clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain ‘opt-up criteria’.
- 2.2. Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (“local authority”) as a ‘per se professional client’ or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as “retail clients” unless they are opted up by firms to an ‘elective professional client’ status.
- 2.3. Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

**3. Potential impact**

- 3.1. A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer’s needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

3.2. Such protections (outlined in **APPENDIX 1**) would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

3.3. Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

#### **4. Election for professional client status**

4.1. MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.

4.2. The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

4.3. The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as **APPENDIX 2**

4.4. The election to professional status must be completed with all financial institutions prior to the change of status on 3<sup>rd</sup> January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.

4.5. The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.

4.6. A flowchart of the process is attached as **APPENDIX 3** and the letter and information templates are attached as **APPENDICES 4 and 5**.

- 4.7. Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.
- 4.8. Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience, or if the relationship with the authority's investment advisor was terminated.

## **5. LGPS pools**

- 5.1. LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.
- 5.2. In some circumstances, in particular where the pool only offers access to fund structures such as Authorised Contractual Scheme (ACS), the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.
- 5.3. Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

## **6. Next steps**

- 6.1. In order to continue to effectively implement the authority's investment strategy after 3<sup>rd</sup> January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the authority has an existing or potential relationship in relation to the investment of the pension fund.

- 6.2. This process should commence as soon as possible in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments.
- 6.3. The officer named in the recommendations should be granted the necessary retrospective delegation to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis.
- 6.4. An update will be provided in the PFC meeting as to where NYPF are in the process and any specific issues relating to the Fund.

## **7. Recommendations**

That the Pension Fund Committee:

- 7.1. Notes the potential impact on investment strategy of becoming a retail client with effect from 3<sup>rd</sup> January 2018.
- 7.2. Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.
- 7.3. In electing for professional client status, the committee acknowledges and agrees to forgo the protections available to retail clients attached as **APPENDIX 1**.
- 7.4. Agrees to approve delegated retrospective responsibility to the Treasurer of the Fund for the purposes of completing the applications and determining the basis of the application as either full or single service.

GARY FIELDING  
Treasurer  
Central Services  
County Hall  
Northallerton

1 September 2017

### **Attachments**

APPENDIX 1 – Retail client protections  
APPENDIX 2 – Summary of FCA policy statement  
APPENDIX 3 – Opt up process flowchart  
APPENDIX 4 – Opt up letter template  
APPENDIX 5 – Opt up information template

### **Warnings - loss of protections as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

#### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

#### **2. Information about the firm, its services and remuneration**

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

- (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and
- (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;
- (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

#### **3. Suitability**

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

#### **4. Appropriateness**

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment

knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

#### 5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

#### 6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

#### 7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

#### 8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

#### 9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

#### 10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

#### 11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.



**12. Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

**13. Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

## FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document <https://www.fca.org.uk/publication/policy/ps17-14.pdf>

**Highlights** (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions
2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment
3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test
4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion
5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions
6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.
7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged
8. Changed the portfolio size threshold to £10m
9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

### Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or

respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

#### **Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)**

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

#### **Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter**

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

#### **Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position**

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term ‘financial sector’ in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

#### **Page 71 Our response on the quantitative test – portfolio size threshold**

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.

2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.<sup>47</sup>

While a local authority’s ability to borrow extra funds to ‘game’ this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

#### **Page 74 Our response on transitional arrangements**

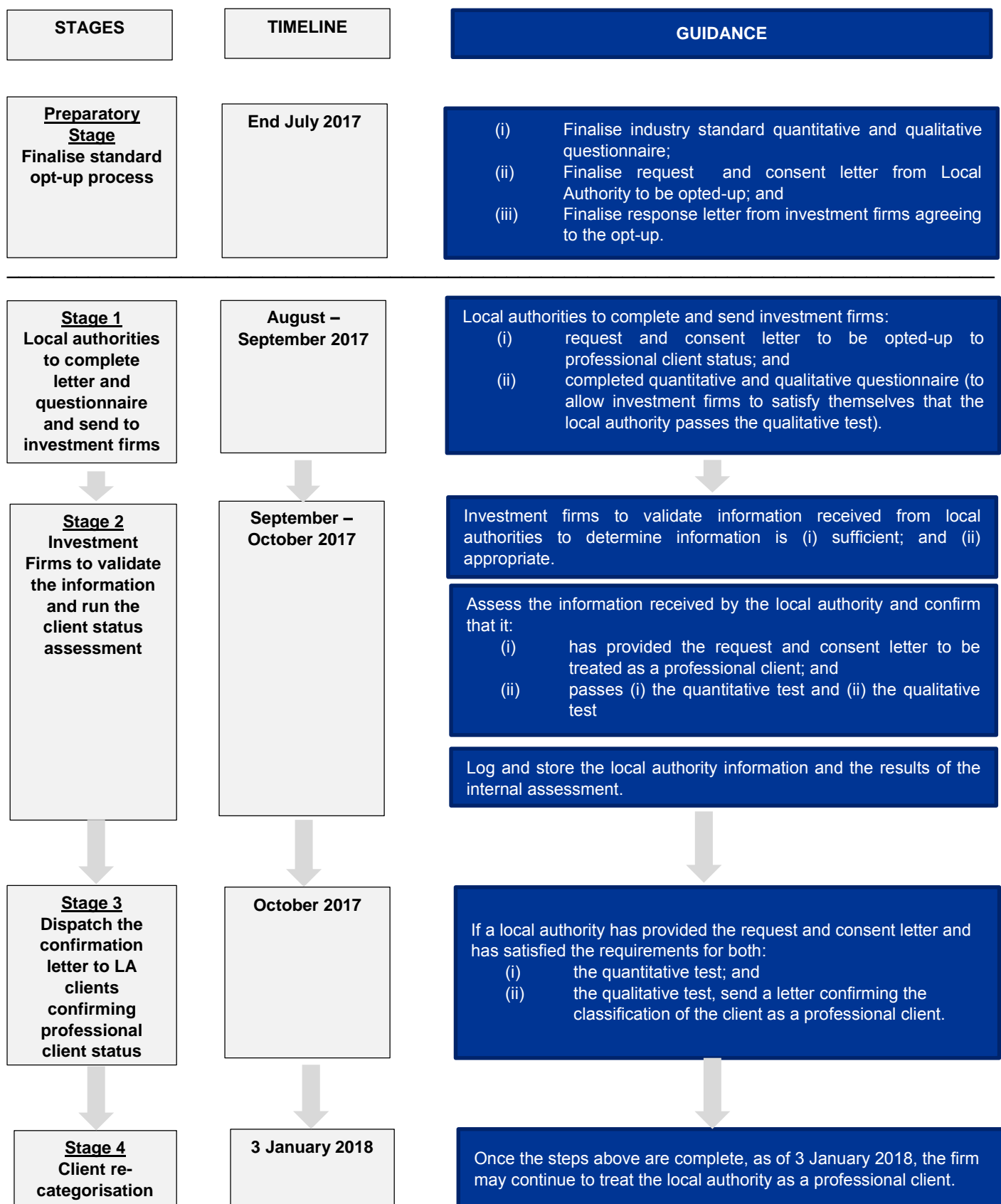
MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take “appropriate action”. Neither MiFID II, nor our rules specify what ‘appropriate action’ is, which will depend on the facts of the case and what would be in the client’s best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to

opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

**UK Local Authority Client Opt-Up Process**



## Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear [●]

### **Request to be treated as a professional investor**

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by [NAME OF AUTHORITY] (the “Local Authority”) to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

- (a) any and all investment service(s) which it receives from you (the “Services”); and/or
- (b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the “Fund Promotions/Investments”).

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client (“Professional Client”). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client (“Retail Client”) as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administering authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

- (a) its request to be categorised as a Professional Client, in its capacity as an administering authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.
- (b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority’s request to be categorised as a Professional Client) is true, accurate and complete.

- (c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.
- (d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.
- (e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.
- (f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

.....

**[insert name and position]** [Authority]



## Schedule 1

### Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

### Part 1 – Loss of protections as a Professional Client when receiving Services

#### 1. **Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

#### 2. **Information about the firm, its services and remuneration**

The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

- (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;
- (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

#### 3. **Suitability**

In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

#### 4. **Appropriateness**

For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

**5. Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

**6. Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

**7. Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

**8. Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

**9. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

**10. Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

**11. Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

**12. Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

**13. Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

**Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions**

**1. Fund promotion**

It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

**2. Non-mainstream pooled investments**

For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an “unregulated collective investment scheme”. The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

**3. Communicating with clients, including financial promotions**

Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

**4. Financial Ombudsman**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client

**5. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

**Elective Professional Client - Status Assessment**

NAME OF LOCAL AUTHORITY: \_\_\_\_\_

CAPACITY: **As administering authority of the local government pension scheme**

NAME OF OFFICIAL COMPLETING QUESTIONNAIRE: \_\_\_\_\_

DATE: \_\_\_\_\_

**QUANTITATIVE TEST**

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

<i>Please answer question (a) with a "Yes" / "No" answer</i>	
(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme <b>exceed GBP 10,000,000?</b>  Portfolio size _____ as at date: .....	<input type="checkbox"/> Yes <input type="checkbox"/> No
(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?	<input type="checkbox"/> Yes <input type="checkbox"/> No
<i>If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases</i>	
(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least <b>10 per quarter</b> for the <b>previous four quarters</b> (i.e. at least 40 investments on the relevant market in the last year)?  Transaction total: .....	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged?  Details of role: .....	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

**QUALITATIVE TEST**

The “qualitative test” requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions and understanding the risks involved**<sup>1</sup>.

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

**TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT****Section 1: Decision making body for pension investing within your authority**

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.
----	---

a	All decisions delegated to committee or sub-committee.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
c	All decisions delegated to an officer or officers.	YES NO	<input type="checkbox"/> <input type="checkbox"/>
d	Other	YES NO	<input type="checkbox"/> <input type="checkbox"/>

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>
----	---	------------------	--

3.	If you have selected model “d - other” above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions.  Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

<sup>1</sup> COBS 3.5.3R (1)

**Section 2: Expertise, experience and knowledge**

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee?  <i>(Please tick whether you have enclosed or provided a link to a copy of an example of the briefing)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
2	Are members provided with training on investment matters?  <i>(Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.		hours offered hours delivered
3	Is the attendance of members at training monitored and recorded?	YES NO	<input type="checkbox"/> <input type="checkbox"/>
4	Please state the average number of hours of training committee members have attended over the last 12 months.		hours
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.		hours
6	Are members required to complete a self-assessment with regard to their knowledge of investments?  <i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
7	Please state the number of years served on the committee (or other such investment committees) on average for each member		years
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

## Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).
---	--

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Index-linked securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Listed equities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property PIVs	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Private equity funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Exchange traded derivatives (ETDs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Over-the-counter derivatives (OTCs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commodities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Cash deposits	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commercial paper	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Floating rate notes	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Money market funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed	<input type="checkbox"/>
		Link	<input type="checkbox"/>
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES	<input type="checkbox"/>
		NO	<input type="checkbox"/>

**Section 4: Understanding risks**

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	<p>Does the authority have a risk framework and/or risk management policy in place in relation to investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to a details of the framework/policy)</i></p>	YES <input type="checkbox"/> NO <input type="checkbox"/>  Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
2	<p>Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?</p> <p>If yes, please provide the name of the advisor:</p>	YES <input type="checkbox"/> NO <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
3	<p>Is the risk framework/policy reviewed on a regular basis?</p> <p>If YES please state the frequency of the review.</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the last review)</i></p>	YES <input type="checkbox"/> NO <input type="checkbox"/>  Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
4	<p>Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months)</i></p>	YES <input type="checkbox"/> NO <input type="checkbox"/>  Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
5	<p>Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management?</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i></p>	YES <input type="checkbox"/> NO <input type="checkbox"/>  Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>



**Section 5: Support for investment decisions taken by committee/sub-committee of the authority**

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each <u>officer providing support</u> to the committee or sub-committee please provide the following information.
----	---

Job title	Relevant qualifications	Years experience in role <sup>2</sup>

2.	For each <u>officer with delegated investment powers</u> please provide the following information (these may be the same officers as above).
----	--

Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers?  <i>(Please tick whether you have enclosed or provided a link to details of the succession plan)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
---	--	-----------------------------------	--

4.	For each <u>individual investment advisor</u> used by the authority please provide the following information <i>only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below</i> .
----	---

Name	Relevant qualifications	Years experience in role <sup>3</sup>

<sup>2</sup> Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

<sup>3</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

5. For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6. For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below*).

Name	Relevant qualifications	Years experience in role <sup>4</sup>

7. For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8. Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities. YES  NO

<sup>4</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

**Section 6 General questions**

1.	<p>In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment?</p> <p><i>(If yes please tick whether you have enclosed or provided a link to a details of the breach)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>
----	--	--

2.	<p>Please use the box below to provide any further information which may be useful in the support of your application.</p>
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## North Yorkshire County Council

## Pension Fund Committee

14 September 2017

## Administration Report

## Report of the Treasurer

**1. Purpose of the Report**

- 1.1 To provide Members with information relating to the administration of the Fund over the year to date and to provide an update on key issues and initiatives which impact the administration team.

**2. Admission Agreements & New Academies**

- 2.2 The latest position relating to Admission Agreements and schools converting to academy status in the year are shown in **Appendix 1**.

**3. Administration****3.1 Membership Statistics**

Membership Category	At 31/03/2017	+/- Change (%)	At 30/06/2017
Active	33,763	-0.50	33,613
Deferred	33,184	+1.10	33,569
Pensioner (incl spouse & dependant members)	20,744	+0.05	20,857
<b>Total</b>	<b>87,691</b>		<b>88,039</b>

**3.2 Performance Statistics**

- 3.2.1 The performance figures for the period 1 April 2017 to 30 June 2017 are as follows:

Performance Indicator	Target in period	Achieved
Measured work achieved within target	98%	95%
Customers surveyed ranking service good or excellent	94%	94.42%
Reduce reliance on customer helpline. Phone queries reduced as a proportion of customer contacts to <29%	29%	45%
Increase numbers of registered self-service users by 700 per quarter	700	758
Total sickness absence in period	1.5 days per full time equivalent	0.86 days per full time equivalent

3.2.2 Failure to meet the agreed performance indicator for work achieved within target is due to increased demand and volume of work within the team. There is a particularly large volume of outstanding work focused on leavers under age 55, which we are in the process of auditing and working through. The clearing of the outstanding work will impact on the performance of the team against the target set above.

3.2.3 Historically we have provided the Committee with information relating to our performance indicator targets as shown above. The team are experiencing increased demand and high work volumes and it is proposed that, in future, the Committee will be given more visibility of the demand the team are experiencing. It is proposed that the Committee is provided with the information as shown in **Appendix 2** in future reports.

### **3.3 Annual Benefit Statements**

3.3.1 In accordance with the regulations we have been producing the 2017 Annual Benefit Statements for active and deferred members of the scheme. The following details the position as at 31 August 2017.

#### Active members

Total members eligible for a statement	<b>31,044</b>
Total statements produced	<b>26,566</b>
% of members receiving a statement	85.88%

Of the 4,478 members not receiving a statement to date, 4,068 have outstanding year end queries and may actually be leavers. The remaining cases are identified and being progressed.

#### Deferred members

Total members eligible for a statement	<b>33,587</b>
Total statements produced	<b>31,743</b>
% of members receiving a statement	94.51%

3.3.2 Of the 1,844 members not receiving a statement to date, 570 will be produced in the weekly catch up run. The remaining cases are identified and being progressed where possible.

### **3.4 Efficiency Review**

3.4.1 As part of the approach to tackle the volumes of work and handle the complexities of the scheme there is an on-going efficiency review. There are three main work streams that will be focussed upon in the coming months:-

1. Letters Review - a comprehensive review and overhaul of the existing suite of letters to ensure they are compliant and easy to understand for our members. This work is required as the majority of letters require manual intervention and amendment every time they are produced. This is inefficient and increases the risk of incorrect information being sent in error.
2. Checklist Review - a comprehensive review and overhaul of the existing checklists in place. We have checklists to ensure work is being processed correctly. Many of the current checklists are cumbersome meaning they are difficult to use correctly causing processing delays and problems.
3. Training Toolkit - a review and development of a centralised, controlled, one stop shop of training and knowledge. We already have good training information but it

is held in various places and notes are generally made by the person being trained. This can lead to vital information being missed and not written down. By standardising and centralising the technical and training information we can control the quality of the training being provided.

## **4 Issues and Initiatives**

### **4.1 GMP Reconciliation**

4.1.1 This issue is addressed as a separate agenda item given the complexity.

### **4.2 General Data Protection Regulations (GDPR) 2018**

4.2.1 The GDPR will have direct effect throughout the EU with effect from 25 May 2018.

4.2.2 It applies to all EU member states and provides a single EU legal framework for the processing of individuals' data. The maximum potential fine for breaching the GDPR will be €20 million (or 4% of global turnover if higher). The government has confirmed that, despite Brexit, the GDPR will be enforceable in the UK from May next year.

4.2.3 Administering Authorities must demonstrate compliance with the GDPR in relation to their LGPS fund. They should be able to show in a meaningful way that both the overall governance structure for data protection compliance and the individual policies and procedures relating to data processing are compliant. Many of the GDPR's main concepts and principles are much the same as those in the current Data Protection Act (DPA). As we are complying with the current law most of our approach to compliance will remain valid under the GDPR and will be the starting point to build from. However, there are new elements and significant enhancements, which mean we will have to do some things for the first time and some things differently.

4.2.4 The key areas to consider are:

- Maintain records of data processing
- Review data security measures and assess adequacy
- Update service provider contracts
- Revise and update privacy notices and consider whether member consent is required
- Establish a breach management process
- Appoint a Data Protection Officer (DPO)
- Ensure processes are in place to cater for the new individual rights
- Carry out data protection impact assessments (DPIA)

4.2.5 This work will be carried out in line with the County Council's approach to determine what, if any, bespoke actions the Fund needs to take in order to be compliant with the regulations by next May.

4.2.6 On a related matter, an independent analysis was carried out of the common data items as defined by the Pensions Regulator. This involved running 15 verification tests against 96,612 members of which 300 failures were identified. This has resulted in a pleasing data quality rating of 99% for the Fund.

4.2.7 The majority of the failures related to incorrect postcodes being held or postcodes being incorrectly formatted and these have been amended along with any other data items which were easily rectified. We continue to monitor data quality internally on a regular basis and this is borne out by the very good score achieved.

## **5 Member Training**

- 5.1 The Member Training Record showing the training undertaken over the year to 30 June 2017 is attached as **Appendix 3**.
- 5.2 Upcoming courses, seminars and conferences available to Members are set out in the schedule attached as **Appendix 4**. Please contact Gary Bowden (01609 532520 or email gary.bowden@northyorks.gov.uk) for further information or to reserve a place on an event.
- 5.3 To remind all Members that have requested to be booked on the New Member training event being provided by BCPP. This event will take place at The Principal in York on 11 and 12 September 2017.

## **6 Meeting Timetable**

- 6.1 The latest timetable for forthcoming meetings of the Committee and Investment Manager meetings is attached as **Appendix 5**.

## **7 Recommendations**

- 7.1 Members are asked to note the content of the report.

GARY FIELDING  
Treasurer  
Central Services  
County Hall  
Northallerton

1 September 2017

Admission Agreement	Current Position and Action to Be Taken (If Applicable)
The Wilberforce Trust	The City of York Council transferred two staff from the Sensory Support Hub to the Wilberforce Trust on 1 April 2017. A signed and sealed admission agreement is in place.
Compass Contract Services (U.K) Limited	The catering services contract for All Saints Roman Catholic School (City of York Council) has been awarded to Compass Contract Services (U.K) Limited from 22.7.2015. An admission agreement has been drafted to allow five staff to continue to contribute to the Local Government Pension Scheme. The delay has been due to the contactor challenging some of the content of the admission agreement.
Compass Contract Services (U.K) Limited	The Thomas Hinderwell Primary Academy (David Ross Education Trust) has awarded the contract for catering services to Compass Contract Services (U.K) Limited from 1.4.2015. An admission agreement has been drafted to allow two staff to continue to contribute to the Local Government Pension Scheme. The delay has been due to the Academy's lack of response to communications.
abm Catering Solutions	The catering services contract for Joseph Rowntree School (City of York Council) has been awarded to abm catering solutions from 1.9.2016. An admission agreement has been drafted to allow three staff to continue to contribute to the Local Government Pension Scheme.
Bulloughs Cleaning Services Ltd	The cleaning services contract at our Lady Queen of Martyrs School has been awarded to Bulloughs Cleaning Services Ltd from 15.12.16. An admission agreement has been drafted to allow two staff to continue to contribute to the Local Government Pension Scheme. Although Lady Queen of Martyrs School is a Voluntary Aided School, the City of York Council is deemed to be the Scheme employer and therefore acts as guarantor to the agreement.
Human Support Group	The City of York Council transferred 18 staff to the Human Support Group on 20 August 2017. An admission agreement has been drafted to allow the staff to continue to contribute to the Local Government Pension Scheme.



### Latest Academy Conversions

<b>Original name of school</b>	<b>Date of conversion/ current position</b>	<b>Name of academy after conversion</b>
Rossett Acre School (NYCC)	School converted to an academy on 1 November 2016	School became part of the Red Kite Learning Trust
Camblesforth CP School (NYCC)	School converted to an academy on 1 January 2017	School became part of the Ebor Academy Trust
Hampsthwaite C of E Primary School (NYCC)	School converted to an academy on 1 February 2017	School became part of the Yorkshire Causeway Schools Trust
Tang Hall Primary School (COYC)	School converted to an academy on 1 May 2017	School became part of the Pathfinder Multi Academy Trust
Meadowside Community Primary School (NYCC)	School converted to an academy on 1 July 2017	School became part of the Elevate Multi Academy Trust
Aspin Park Primary School (NYCC)	School converted to an academy on 1 July 2017	School became part of the Elevate Multi Academy Trust
Topcliffe CofE VC Primary School (NYCC)	School converted to an academy on 1 July 2017	School became part of the Elevate Multi Academy Trust

## 1. Admission Agreements & New Academies

A new table showing a full picture of the admissions and academy conversions in the pipeline, the effective date of admission or conversion and the latest position on each. This will still be shown as an appendix as shown overleaf.

## 2. Administration

### 2.1. Membership Statistics

To remain as they are currently.

### 2.2. Throughput Statistics

New table of throughput statistics detailing the main cases the team process and the volumes being experienced. This shows work outstanding at the start, what has been received, what has been processed and what is outstanding at the end. This gives an indication of whether staffing levels are correct, what level of demand is being experienced and helps to identify which particular types of work are the highest volume items. All this information helps to ensure effective management of the resources within the team to ensure high levels of customer service and satisfaction are maintained.

Period from 01/06/2017 to 31/08/2017

<b>Casetype</b>	<b>Cases Outstanding at Start</b>	<b>New Cases</b>	<b>Cases Closed</b>	<b>Cases Outstanding at End</b>
Transfer In quotes	9	5	2	12
Transfer Out quotes	29	10	12	27
Employer estimates	10	5	8	7
Employee estimates	17	10	8	19
Retirement quotes	29	25	19	35
Preserved benefits	156	30	40	146
Death in payment or in service	26	15	10	31
Refunds	34	8	12	30
Actual retirement procedure	62	22	23	61
Interfund trfs	35	10	10	35
Aggregate member records	88	12	15	85
Process GMP	251	5	5	251
Others	63	12	10	65
<b>Total Cases</b>	<b>809</b>	<b>169</b>	<b>174</b>	<b>804</b>

### 2.3. Performance Statistics

A reduced performance statistics table to provide you with the key information required regarding service levels being achieved, our members perception of that service and to give visibility of our continued drive to increase the number of members utilising the self-service functionality available.

Performance Indicator	Target in period	Achieved
Measured work achieved within target	98%	
Customers surveyed ranking service good or excellent	94%	
Increase numbers of registered self-service users per quarter	700	

## Academy Conversions

Name of School	Local Education Authority	Multi Academy Trust (MAT)Name	Conversion Date	Current Position
Cannon Lee Secondary School	City of York Council	Hope Learning Trust	1.4.2017	Conversion complete. New name is Vale of York Academy
Filey CE Infant and Nursery School	NYCC	Ebor Academy Trust	1.4.2017	Conversion complete. New name is Filey CofE Nursery and Infants Academy
Park Grove Primary School	City of York Council	Ebor Academy Trust	1.4.2017	Conversion complete
Leyburn Primary School	NYCC	Yorkshire Collaboration Academy Trust	1.5.2017	Conversion complete
Tang Hall Primary School	City of York Council	Pathfinder Multi Academy Trust	1.5.2017	Conversion complete
Clifton with Rawcliffe Primary School	City of York Council	Pathfinder Multi Academy Trust	1.6.2017	MAT did not send information to NYPF until 1.8.2017. Issues identified with staff list provided, waiting for MAT to respond.
Meadowside Community Primary School	NYCC	Elevate Multi Academy Trust	1.7.2017	Conversion complete
Aspin Park Primary School	NYCC	Elevate Multi Academy Trust	1.7.2017	Conversion complete
Topcliffe CofE VC Primary School	NYCC	Elevate Multi Academy Trust	1.8.2017	Conversion complete
Coppice Valley Community Primary School	NYCC	Red Kite Learning Trust	1.8.2017	Waiting for the MAT to confirm the basis of the actuarial calculations (pooled/non-pooled)
Barlby High School	NYCC	Hope Learning Trust	1.9.2017	Waiting for confirmation when the school has converted so pension records can be updated
Tockwith CE VC Primary School	NYCC	Ebor Academy Trust	1.9.2017	Waiting for confirmation when the school has converted so pension records can be updated
Easingwold School	NYCC	Outwood Grange Academies Trust	1.10.2017	Waiting for the MAT to confirm the basis of the actuarial calculations (pooled/non-pooled)
Richmond School	NYCC	Arete Learning Trust	1.10.2017	Actuarial calculations requested
Selby Community Primary School	NYCC	Selby Education Trust	1.10.2017	Waiting for confirmation when the school has converted so pension records can be updated (it has been delayed once from 1.9.17)

East Cowton CoE Primary School	NYCC	Dales Academies Trust	1.11.2017	Waiting for new starter information at start of new academic year (Sept 17)
Eppleby Forcett CoE Primary School	NYCC	Dales Academies Trust	1.11.2017	Waiting for new starter information at start of new academic year (Sept 17)
Kirkby Fleetham CoE Primary School	NYCC	Dales Academies Trust	1.11.2017	Waiting for new starter information at start of new academic year (Sept 17)
Middleton Tyas CoE Primary School	NYCC	Dales Academies Trust	1.11.2017	Waiting for new starter information at start of new academic year (Sept 17)
Richmond CoE Primary School	NYCC	Dales Academies Trust	1.11.2017	Waiting for new starter information at start of new academic year (Sept 17)
South Otterington CoE Primary School	NYCC	Dales Academies Trust	1.11.2017	Waiting for new starter information at start of new academic year (Sept 17)
Ainderby Steeple CoE Primary School	NYCC	Dales Academies Trust	Not known	Waiting for further information
Barton CoE Primary School	NYCC	Dales Academies Trust	Not known	Waiting for further information
Bolton on Swale CoE Primary School	NYCC	Dales Academies Trust	Not known	Waiting for further information
Croft Primary School	NYCC	Dales Academies Trust	Not known	Waiting for further information
Ravensworth CoE Primary School	NYCC	Dales Academies Trust	Not known	Waiting for further information
Airy Hill CP School	NYCC	Endeavour Learning Academy Trust	1.11.2017	Initial staff information to check
Castleton CP School	NYCC	Endeavour Learning Academy Trust	1.11.2017	Initial staff information to check
Glaisdale CP School	NYCC	Endeavour Learning Academy Trust	1.11.2017	Initial staff information to check
Lealholm CP School	NYCC	Endeavour Learning Academy Trust	1.11.2017	Initial staff information to check
West Cliff CP School	NYCC	Endeavour Learning Academy Trust	1.11.2017	Initial staff information to check
All Saints CE Primary School	NYCC	Yorkshire Causeway Schools Trust	Not known	Original conversion date was 1.7.2016 but MAT advised it has been delayed. New date not yet known.
Langton Primary School	NYCC	Evolution Schools Learning Trust	Not known	Original conversion date was 1.10.2016 but MAT advised it has been delayed. New date not yet known.

## Admission Bodies

Name of Employer	Name of Contractor	Staff Transfer Date	Current Position
City of York Council	York Arts Education (Community Interest Company)	1.4.2017	Complete
City of York Council	City of York Trading Limited	1.6.2017	Complete
City of York Council (All Saints Roman Catholic School)	Compass Contract Services (U.K) Limited	22.7.2015	Contractor disputing content of the admission agreement. Has finally agreed to sign it and this is expected imminently
Thomas Hinderwell Primary Academy	Compass Contract Services (U.K) Limited	1.4.2015	Initial issues getting the academy to agree to their responsibilities. Current issues with academy disputing content of the admission agreement. They have been told it is not negotiable
City of York Council	abm catering solutions	1.9.2016	Solicitors still negotiating the terms of the main commercial contract! Draft admission agreement has been provided
City of York Council	Human Support Group	20.8.2017	Contractor disputing the content of the admission agreement. York and the contractor now trying to negotiate exit debt terms in the in the commercial contract
City of York Council	Bulloughs Cleaning Services Ltd	15.12.16	Waiting for the date of the main commercial contract before final admission agreement can be done.
Askham Bryan College	Churchill Contract Services	1.2.2017	Queries with staff transfer information and still trying to get date of main commercial agreement confirmed. Draft admission agreement has been provided
City of York Council	Greenwich Leisure Limited (GLL)	1.10.2017	Draft admission agreement provided. Need date of main commercial contract and second signatory to sign the admission agreement for GLL
City of York Council (Lakeside Primary School)	Hutchison Catering Limited	27.7.2017	Waiting for York to confirm staff lists, date of main contract agreement and confirmation that a deed of novation will be put in place when the school converts to an academy on 1.8.18 (Ebor Trust)
Ebor Academy Trust (Park Grove Primary School)	Hutchison Catering Limited	27.7.2017	Waiting for the Trust to confirm the staff lists, also need main contract date

Ebor Academy Trust (Ebor Academy Filey)	Hutchison Catering Limited	27.7.2017	Waiting for the Trust to confirm the staff lists, also need main contract date
Pathfinder Multi Academy Trust (Clifton with Rawcliffe School)	ISS	27.7.2017	Waiting for the Trust to confirm the staff lists, also need main contract date. Also need queries from the academy conversion resolving before I can provide an employer contribution rate to the contractor/MAT
City of York Council (Poppleton Road CP School)	Hutchison Catering Limited	27.7.2017	Waiting for York to confirm the staff list
Pathfinder Multi Academy Trust (Hempland Primary School)	ISS	27.7.2017	Waiting for the Trust to confirm the staff lists, also need main contract date.
Pathfinder Multi Academy Trust (Tang Hall School)	ISS	27.7.2017	Waiting for the Trust to confirm the staff lists, also need main contract date.
City of York Council	Caterlink	Not known	Email from contractor 28.6.17 advising they have won contracts for York Council Schools. No details of which schools or when the contractors are effective from. Awaiting further information
Poppleton Ousebank Primary School - academy in the Hope Learning Trust	CH&Co Group	28.7.2017	Waiting for the academy to confirm the staff lists and who will pay legal fees
City of York Council (Dringhouses Primary School)	abm catering	27.7.2017	Waiting for York to confirm the staff list
City of York Council (Headlands Primary School)	abm catering	27.7.2017	Waiting for York to confirm the staff list
City of York Council (St Paul's Primary School)	abm catering	27.7.2017	Waiting for York to confirm the staff list
City of York Council	Gough & Kelly	Not yet known	At start of process. Need to request staff information and contract details

### Appendix 3

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	Portlock D	Hazelidine B	Unison (Vacancy)	Unison (Vacancy)
5-6 Oct 2016	Baillie Gifford LGPS Pension Seminar		✓	✓		✓	✓	✓	✓					
19-21 Oct 2016	PLSA Annual Conference	✓	✓			✓								
2 Nov 2016	PLSA Local Authority Conference	✓												
25 Nov 2016	Investment Strategy Review	✓		✓	✓	✓	✓	✓	✓		✓			
24 February 2017	NTCC Investment Manager Meeting	✓		✓	✓	✓	✓	✓	✓		✓			

Date	Title or Nature of Course	Blackie J	Mulligan P	Swiers H	Weighell J	Clark J	Portlock D	M Chambers	A Solloway	A Thompson	C Lunn	D Carr	Unison (Vacancy)	Unison (Vacancy)
25 May 2017	Induction Training	✓		✓	✓	✓	✓	✓	✓		✓			
26 May 2017	Induction Training			✓	✓	✓	✓	✓			✓			



## UPCOMING TRAINING AVAILABLE TO MEMBERS

<i>Provider</i>	<i>Course / Conference Title</i>	<i>Date(s)</i>	<i>Location</i>	<i>Themes / Subjects Covered</i>
LGPIF	Annual LG Pension Investment Forum	10-12 October 2017	London	Investment strategy, Governance, Risk Management & Macroeconomics
PLSA	Annual Conference and Exhibition	18-20 October 2017	Manchester	This year's PLSA Annual Conference and Exhibition is designed to help pension schemes understand the forces shaping the future and how to respond to them. Includes keynote speeches, streamed focus sessions, fringe meetings, a Trustee Learning Zone, networking events and exhibition.
PLSA	Local Authority Forum	7 November 2017	PLSA Offices Cheapside House London	This forum will update you on best practice in governing, administering and communicating your scheme alongside the latest policy and technical developments.
CIPFA	Annual Pensions Conference	22 November 2017	London Stock Exchange	Diving into LGPS Pools. In depth analysis of how asset pooling in the LGPS will change the landscape for all Funds and their wider governance arrangements.
PLSA	Investment Conference	7-9 March 2018	EICC Edinburgh	Will address the key investment choices, challenges and changes faced by defined benefit and defined contribution pension funds and institutional investors. The conference includes keynote speeches; breakout sessions on DB, DC, Investment governance and culture and New horizons; an Academy Trustee Learning Zone; fringe meetings; an exclusive

## PENSION FUND COMMITTEE TIMETABLE FOR MEETINGS IN 2017 AND 2018

Meeting Date	Time & Venue	Event	Fund Managers
14 September 2017	10am, TBC	Pension Fund Committee	
15 September 2017	10am, TBC	Investment Strategy Workshop	
23 November 2017	10am, TBC	Pension Fund Committee	
24 November 2017	10am, TBC	Investment Manager Meeting	2 Managers TBC
22 February 2018	10am, TBC	Pension Fund Committee	
23 February 2018	10am, TBC	Investment Manager Meeting	2 Managers TBC

**North Yorkshire County Council****Pension Fund Committee****14 SEPTEMBER 2017****Cessation of Contracting Out - GMP Reconciliation****1.0 Purpose of Report**

- 1.1 Approval is requested to fund a comprehensive project to reconcile Guaranteed Minimum Pension (GMP) values held on the Pension Scheme administration system, Altair, with the values held for our scheme members on Her Majesty's Revenue and Customs (HMRC) records.

**2.0 Background**

- 2.1 The Local Government Pension Scheme (LGPS) is a defined benefit scheme which was contracted out of the State Earnings Related Pension Scheme (SERPS). Had the scheme not been contracted out, then each qualifying member would have accrued an additional pension up to 6 April 1997 under the SERPS arrangements, funded by their National Insurance contributions. A condition of this contracted out status was that the pension scheme maintains a record of an individual member's accruing GMP. This value is designed to be broadly equivalent to the SERPS benefit that the member would have accrued, had they not been contracted out.
- 2.2 There are complex regulations regarding annual inflationary increases to the GMP pension element and the dates at which it becomes payable to the scheme member. The Government decided that with effect from 6th April 2016 contracting out would be abolished, coinciding with the introduction of the new Single Tier State Pension, and as a result HMRC are providing a one-off service to enable Schemes to reconcile the GMP figures they hold with those held by HMRC – this service will cease in December 2018 after 5 years of operation.
- 2.3 It is essential therefore to reconcile the GMP element recorded on Altair with that held on the HMRC system, to ensure that qualifying pensions coming into payment, together with qualifying pensions already in payment, are paid at the correct amount in line with the Statutory Regulations governing the administration of the LGPS. This will ensure the liabilities of the scheme, so far as GMP values are concerned, are represented accurately at each future valuation.

### **3.0 Potential Outcome of the Project**

- 3.1 GMP values have been maintained on the two operating systems (HMRC & Altair) since SERPS was first introduced in 1978. Experience to date shows that when reconciling the values of GMPs on an individual basis there will be large numbers of discrepancies present in the administration data. The reasons for this are varied and numerous.
- 3.2 A detailed report by the National Audit Office conducted in July 2009 examining the records of 5 Public Service Pension Schemes (PSPS) excluding the LGPS, reached the conclusion that the administration arrangements for GMPs, involving five Government Departments and all contracted out schemes, was systemically failing. There was little cooperation between the various interested bodies, GMP notifications were not being issued, were being sent to the incorrect schemes or were for incorrect amounts. Where a person reached State Pension Age (SPA) the pension scheme may well have had no record of a GMP entitlement. The report contained estimates of the likely levels of over and under payments resulting from the failings of the GMP administration arrangements. Approximately 95,000 pensioners were being overpaid to the sum of £126m, whilst just under 5,000 were being underpaid to the sum of £191k.
- 3.3 It is clear from this report and experience of administering authorities more recently that the outcome of the proposed reconciliation project is likely to identify significantly larger numbers of overpayments compared to the number of underpayments. It is for this reason that it is important to undertake the reconciliation project, in order to adjust both over and under payments going forward.
- 3.4 Alongside the issue of paying pensions incorrectly there is also the issue where the scheme and HMRC do not agree on which members actually have a GMP. HMRC will have records attached to the scheme which we have no record of or which are no liability, and the scheme will have records the HMRC does not have.
- 3.5 The reconciliation will ensure that the scheme is paying the correct level of benefit at the correct time, and that the liabilities of the scheme are correctly reported at each valuation.

### **4.0 Extent of Work**

- 4.1 The first stage of such a project is to extract a complete report of all GMP values on Altair and compare that to a full extract of the HMRC records to identify the level of inconsistencies in the two databases. The next step is to investigate the

discrepancies and categorise them into those cases that warrant further investigation and those that can be ignored.

4.2 We have been able to source a free initial analysis of our data and headline figures from that initial stage are shown below.

Circa 77,000 Altair records have been compared to HMRC records:

Issue	Approximate Numbers Affected
Complete match – No further action	20,000
On Altair not on HMRC	15,500
On HMRC not on Altair	10,000
Single discrepancies relating to dates	12,300
Single discrepancies relating to amounts	1,100
Multiple discrepancies	12,000
Total Discrepancies	50,900

4.3 The work involved in the initial comparison, research of appropriate cases, rectification of errors and communicating with members is significant and time consuming. The complex nature and size of the issue means that many administering authorities have decided that undertaking the exercise in-house is not achievable. Indicative resource requirements from within the pensions industry are shown below:

- Private sector scheme with 120,000 members – 4 people for 3 years
- Public sector scheme with 110,000 members – 5 people for 2 years

4.4 As we are unable to realistically resource this in house and now have insufficient time left before HMRC closes its GMP enquiries and support function we will need to engage a 3rd party who has expertise and experience of undertaking this work for other pension schemes. Appointing a specialist to deliver the reconciliation project allows the in-house Pension Team to concentrate on the ever increasing levels of work on a day to day basis.

## 5.0 Financial Justification of Outsourcing the Project

5.1 The nature of the project means that suppliers specialising in the cleansing, extraction, comparison and classification of data offer services to assist administering authorities. A number of these companies were vetted and compared for the provision of administration support services, following which a number were selected by Norfolk County Council Framework to offer to undertake these projects on behalf of LGPS administering authorities. Their solutions are consistent with the process proposed by HM Treasury.

- 5.2 Based on experience to date of GMP Reconciliations for LGPS funds it is likely that the project will uncover past overpayments to the extent of £250k per 10,000 pensioner and dependant members of the Scheme. Given the fund currently has approximately 8,000 pensioner and dependant members, it is likely that the project will identify past overpayments in excess of £200k to date – a sum which will naturally increase at a significant rate should the necessary corrections not be applied.
- 5.3 There will also be a number of cases with underpayments which will offset the overall impact of the overpayments, however, based on experience to date, the numbers will be consistently much lower than the overpayments.
- 5.4 Alongside this the initial stage has identified circa 10,000 members who HMRC believe have a GMP liability in the scheme. If we are unable to identify these records or provide evidence of no membership there is the potential that the scheme will be required to accept the liability and create a GMP only membership. Indicative pension amounts for this category is currently £1.7 million per annum.
- 5.5 By using a specialist data analysis and management provider the scheme can benefit from the use of automated systems which have been developed and refined over the course of the past 4 years, reducing the timescales and costs as well as the burden placed on the in-house pension team. We can also benefit from an automated and fully audited data load back into both Altair and Resourcelink to correct member records.
- 5.6 Powys County Council completed their reconciliation in February 2017 and shared their key figures with the CLASS group as follows:
- 77% of discrepancies resolved automatically without Powys involvement
  - 15% of discrepancies awaiting response from HMRC and will require minimal input from Powys
  - Only 8% of discrepancies requiring administrator review

## **6.0 Cost of Outsourcing the Project**

- 6.1 Based on the results of the initial data analysis we have received a quote of £230k for completion of the end to end project. This includes automated analysis and correction of the data, direct liaison with HMRC, full project management and detailed financial impact of rectification. In addition we have appointed a temporary pensions officer to undertake liaison with the 3<sup>rd</sup> party appointed and undertake any manual file investigation or information gathering that is required.
- 6.2 It is anticipated the project will last for 12 months.

- 6.3 The identification of the potential levels of overpayments and the potential GMP only liabilities justifies the cost of completing this exercise and commencement needs to be as soon as possible to enable completion within the remaining timeframe available.
- 6.4 In summary the one off cost of £230k of the project is outweighed by the potential savings of approximately £1.9 million which are on an ongoing basis and would increase each year in line with annual pension increases.
- 7.0 **Recommendations**
- 7.1 Members are asked to approve the expenditure required to complete this project.

Report presented by -

Gary Fielding  
Corporate Director, Strategic Resources

Report Prepared by –

Phillippa Cockerill  
Head of Pensions Administration

1 September 2017

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

14 SEPTEMBER 2017

## 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 2017/18 (see section 2)
- (b) the cash deployment of the Fund (see section 3)

**2.0 2017/18 FORECAST**

- 2.1 The Cash surplus for the quarter to 30 June 2017 of £37.8m was higher than forecast (£35.9m), by £1.9m.
- 2.2 Pensions Payroll Expenditure of £19.9m and Retirement Grant payments of £7.3m were higher than forecast by £0.1m.
- 2.3 Contributions Income of £64.0m represents a £1.1m positive variance to budget.
- 2.4 The profile for contributions income has been adjusted to include the pre-payment of deficit contributions. Seven employers agreed with the Fund to pay their 2017/18 to 2019/2020 deficit contributions as a single payment in April 2017. This has resulted in an additional £35.6m of employer contribution receipts during the 3 months to June 2017.
- 2.5 Transfer Income for the period was £0.7m more than forecast at £2.5m. The forecasts for the year remain unchanged.
- 2.6 The GMP Reconciliation project will be discussed in a separate agenda item.

**3.0 CASH DEPLOYMENT IN 2017-18**

- 3.1 The cash generated in the year by the annual surplus, together with the opening balance has been utilised in 2017/18 as follows:



	£m	
Cash Balance Brought Forward from 2016/17	8.7	
Surplus to 30 June 2017 (as per Appendix 1)	37.8	
<b>Cash Available as at 30 June 2017 before Rebalancing</b>	<b>46.5</b>	<b>(a)</b>
<b>Rebalancing – Cash Transfers</b>		
April 2017 Transfer to BlueBay	-0.9	
April 2017 Transfer to Newton	-10.0	
May 2017 Transfer to Standard Life	-10.0	
June 2017 Transfer from Permira	0.2	
<b>Total Rebalancing</b>	<b>- 20.7</b>	<b>(b)</b>
<b>Cash Available as at 30 June 2017</b>	<b>25.8</b>	<b>(a) + (b)</b>
<b>Add accruals as at 30 June 2017</b>	<b>6.0</b>	<b>(c)</b>
<b>Available for Rebalancing of the Fund</b>	<b>31.8</b>	<b>(d) = (a+b+c)</b>

#### 4.0 RECOMMENDATIONS

4.1 Members to note the contents of the report.

GARY FIELDING  
Treasurer  
Central Services  
County Hall  
Northallerton

1 September 2017

North Yorkshire Pension Fund Income and Expenditure as at 30 June 2017

Appendix 1

	Budget 2017/18 £000 (i)	Profiled Budget to 30 June £000 (ii)	Actual Income/ Expenditure to 30 June £000 (iii)	Variance ie (iii-ii) £000 (iv)	Forecast 2017/18 £000 (v)
<b>EXPENDITURE</b>					
<b>Benefits</b>					
Pensions	80,000	20,000	19,939	-61	80,000
Lump Sums (including refunds)	28,500	7,125	7,294	169	28,500
<b>sub total (a)</b>	<b>108,500</b>	<b>27,125</b>	<b>27,233</b>	<b>108</b>	<b>108,500</b>
<b>Admin Expenses</b>					
Finance and Central Services inc ESS	1,200	300	0	-300	1,200
GMP Reconciliation Project	0	0	0	0	230
Other Admin Expenses	410	103	111	9	410
<b>sub total (b)</b>	<b>1,610</b>	<b>403</b>	<b>111</b>	<b>-292</b>	<b>1,840</b>
<b>Investment Expenses</b>					
Investment Management Fees (Base)	3,700	925	1,075	150	3,700
Performance Related	3,500	0	0	0	3,500
Custodian Fees	150	38	32	-5	150
Other Investment Expenses	260	65	67	2	260
<b>sub total (c)</b>	<b>7,610</b>	<b>1,028</b>	<b>1,174</b>	<b>146</b>	<b>7,610</b>
<b>Total Expenditure (d)</b>	<b>117,720</b>	<b>28,555</b>	<b>28,518</b>	<b>-37</b>	<b>117,950</b>
<b>INCOME</b>					
<b>Contributions</b>					
Employer and Employee Contributions	148,000	62,881	63,983	1,102	148,000
Early Retirement Costs Recharged	2,500	625	251	-374	2,500
<b>sub total (e)</b>	<b>150,500</b>	<b>63,506</b>	<b>64,234</b>	<b>728</b>	<b>150,500</b>
<b>Transfers</b>					
Transfers IN (per individuals)	7,500	1,875	2,531	656	7,500
Transfers OUT (per individuals)	-5,000	-1,250	-1,224	26	-5,000
<b>sub total (f)</b>	<b>2,500</b>	<b>625</b>	<b>1,307</b>	<b>682</b>	<b>2,500</b>
<b>Other Income</b>					
Class Action Proceeds	0	0	518	518	
Other Investment Income (Hermes)	1,200	300	300	0	1,200
<b>sub total (g)</b>	<b>1,200</b>	<b>300</b>	<b>818</b>	<b>518</b>	<b>1,200</b>
<b>Total Income (h)</b>	<b>154,200</b>	<b>64,431</b>	<b>66,359</b>	<b>1,928</b>	<b>154,200</b>
<b>Net Surplus (i)</b>	<b>36,480</b>	<b>35,876</b>	<b>37,842</b>	<b>1,966</b>	<b>36,250</b>

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

14 SEPTEMBER 2017

PERFORMANCE OF THE FUND'S PORTFOLIO FOR THE QUARTER  
ENDING 30 JUNE 2017

## 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 period to 30 June 2017.

**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 2017.
- 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 (+2.3%) was above the customised benchmark for the Fund (+0.7%) by +1.6%.
- 3.2 The 12 month absolute rolling return was +21.9%, 5.9% above the customised benchmark of +16.0%.
- 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 2017	+21.9	+5.9
31 March 2017	+24.7	+2.9
31 December 2016	+18.5	-1.5
30 September 2016	+23.0	+2.0

- 3.4 The performance of the various managers against their benchmarks for the quarter ended 30 June 2017 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 2017 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 report of the Investment Consultant explains 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 +2.3% in the Quarter increased the invested value of the Fund by £107.4m. This Quarter, 10 managers/funds outperformed their respective benchmarks and 5 underperformed against their respective benchmarks. At the end of the June 2017 quarter the value of the Fund was £595m above the value at the end of June 2016, an increase of 23.3%.

##### Overseas Equities

4.2 **Fidelity** produced a relative return in the quarter of +0.3% against the benchmark return of +1.5%. Relative performance over the year to June 2017 was -0.4% against the benchmark of +24.6%. 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 +4.7% for the quarter against a benchmark return of +0.5%. Relative performance over the longer term was +9.5% over 1 year and +3.6% p.a. over 5 years. Since inception in 2006, the Fund has outperformed the FTSE All World by 2.5% p.a.

The LTGG fund, also managed by **Baillie Gifford** produced a return for the quarter of +8.9% against a benchmark return of +0.5%. LTGG is a relatively concentrated fund and short term volatility is to be expected. Relative performance over the longer term was +17.0% over 1 year and +6.9% p.a. over 5 years.

The Global equity funds for **Veritas** and **Dodge & Cox** produced a relative return of +4.5% and -1.6% respectively against the MSCI All Country World benchmark of +0.6%. Both managers invest on a global unconstrained basis so this benchmark is for performance measurement purposes only. In absolute terms, since inception in April 2015, Veritas and Dodge and Cox have returned +15.5% p.a. and +12.0% p.a. respectively against the benchmark return of +12.0%.

## UK Equities

- 4.4 **Standard Life** produced an absolute return of -1.5% for the quarter. This represents an underperformance of -5.5% against the benchmark. Relative performance for the year was +3.6% against the benchmark of +25.8%. Relative annualised performance over the longer term was -2.8% p.a. over three years and +0.7% p.a. over five years.

## Fixed Income

- 4.5 **ECM** produced +1.1% relative against cash (+0.1%) for the quarter and also +4.9% relative for the year. Annualised performance for the 5 years to June 2017 was +3.3% p.a. relative against a benchmark of +0.5%.
- 4.6 The investment in Gilts with **M&G** underperformed against the liability matching benchmark of -2.8% for the quarter to June 2017 by -0.2%. Performance for the year was +0.9% above the benchmark return of +6.5%, and annualised performance since inception in 2010 was +0.8% pa above the benchmark of +10.1%.

## Property

- 4.7 The investments with **Hermes, L&G and Threadneedle** produced +0.4%, -0.9% and -0.6% respectively in relative terms, against the property index for each manager in the quarter to June 2017.
- 4.8 Over the year to June 2017 **Hermes, L&G and Threadneedle** outperformed against the benchmark, returning in absolute terms +8.0%, +9.7% and +11.2% respectively against a benchmark of +5.7%, +6.0% and +6.0% respectively.

## Diversified Growth Funds

- 4.9 The Investment with the **Standard Life** Global Absolute Return Strategy (GARS) Fund produced a relative outperformance for the quarter of +1.1% against a cash benchmark of +0.1%. The **Newton Investments** Real Return Fund produced a relative over-performance for the quarter of +1.0% against the same cash benchmark.
- 4.10 Over the period since inception in March 2013, in absolute terms, Standard Life returned +2.4% p.a. against cash of +0.5% and a performance target of +5.5%. Newton achieved +2.8% p.a. 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 7.3% for the rolling three year period to 30 June 2017, 0.7% 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 2017 was +0.1% above benchmark at 1.8%.
- 5.4 The **Tracking Error** figure reflects how closely a fund manager's actual return follows their respective benchmark. As at June 2017 the figure was 2.5%.
- 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 2017 the ratio for the Fund was +0.7%.

## 6.0 SOLVENCY

- 6.1 The **solvency position** is presented in **Appendices 3 and 4**. As at 30 June 2017 the estimated solvency was 105%. This is a 15% increase from the solvency figure as at 31 March 2016, calculated by the Actuary during the 2016 Valuation process.
- 6.2 This increase in solvency is primarily due to asset outperformance over the period.

## 7.0 REBALANCING

- 7.1 During the quarter to 30 June 2017 £10m was invested in both Standard Life GARS and Newton to reduce the cash balance of the Fund. An additional £9m was also invested with Permira for its second capital call.
- 7.2 In the quarter the Fund received £4.4m back from Bluebay in an equalisation payment.

## 8.0 PROXY VOTING

- 8.1 The report from PIRC is available on request summarising the proxy voting activity in the period April 2017 to June 2017. 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 period ending 30 June 2017.

GARY FIELDING  
Treasurer  
Central Services  
County Hall  
Northallerton

1 September 2017



**BNY MELLON**  
ASSET SERVICING

**North Yorkshire Pension Fund**

**3 Months Ending 30 June 2017**

*Fund Analysis & Performance Report*





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## Market Review

### Market Briefing - Quarter Ended 30 June 2017

#### Market Summary

2nd quarter of 2017 saw mixed returns across different sectors. Most Equities achieved positive returns whereas the majority of bonds achieved negative returns.

#### UK Equities

In Quarter Two 2017 the FTSE All Share was the best performing index with a return of 4.0%, followed by the FTSE Small Cap with a return of 3.8%. The FTSE 100 showed the weakest performance with a return of 1.0%. Over the one year period ending 30th June 2017, the FTSE Small Cap was the best performing index with a return of 28.5%. The FTSE 100 was the weakest performing index with a return of 16.9%.

Financials was the best performing industry sector with a return of 5.0% for the quarter. The weakest performing sector was Basic Materials with a return of -4.2%. Over the one year period returns ranged from 39.5% for Basic Materials to -7.7% for Telecommunications. Financials was the second best performing sector with a return of 36.4% over the year.

#### Overseas Equities

Most Overseas Equity markets achieved positive returns during the quarter.

Within Europe, Greece was the best performing country with a return of 29.7%. This was followed by Austria with a return of 16.8%. The weakest performing country was Portugal with a return of -0.5%. Over the one year period, Austria was the strongest performing country with a return of 68.6% and Belgium the weakest with a return of 5.9%.

Outside Europe, Korea was the best performing country with a return of 6.1% followed by Taiwan with a return of 4.5%. Brazil was the weakest performing country with a return of -10.5%.



## Executive Summary

### Market Review

#### UK Bonds

For UK-Bonds the 2nd quarter returns were negative for most of the sectors. Non Gilts outperformed UK-Gilts with a return of 0.5% compared to a return of -1.3%. Within Gilts, Short-dated Gilts was the strongest performing sector with a return of -0.4%. Long-dated Gilts was the weakest performing sector with a return of -2.3%.

Over the one year period ending 30th June 2017, Non Gilts was the best performing sector with a return of 5.5% compared to the return of -0.9% for UK-Gilts. Within Gilts, Short-dated Gilts provided the strongest performance with a return of -0.1%, whilst the weakest came from Long-dated Gilts with -1.8%.

#### Overseas Bonds

Within Europe, France was the best performing country with a return of 4.3%. Germany was the weakest performing country with a return of 1.5%. Outside Europe, Canada was the best performing country with a return of -0.7%. Japan was the weakest performing country outside Europe with a return of -4.5%.

Over the twelve month period, most European Bonds saw positive returns. Spain provided the strongest performance with a return of 5.1%, followed by Finland with a return of 2.5%. Outside Europe, the best performance came from the Australia with a twelve months return of 5.0%.

#### UK Index-Linked Gilts

UK Index Linked-Gilts achieved a negative return of -2.3% for the second quarter of 2017. Within this sector, Short-dated Index-Linked Gilts provided the strongest performance with a return of -0.2%. The weakest performance was provided by Long-dated Index-Linked Gilts with a return of -3.0%.

Over the one year period, on an overall basis UK Index-Linked Gilts achieved a return of 6.7%. Over the same period, Long-dated Index-Linked Gilts was the strongest performing sector with a return of 7.9%, whereas Short-dated Index Linked Gilts showed the weakest performance, returning 2.3%.

#### UK Cash

Cash achieved a return of 0.0% over the quarter and 0.2% over the last twelve months.



### Fund Performance, Risk and Allocation Highlights

During the second quarter of 2017, the fund returned 2.31% versus its benchmark of 0.68%, thereby outperformed by 1.63%. In terms of longer period performance, the fund has outperformed over 3 years by 1.97% p.a.

At asset class level, the fund outperformed its blended benchmark in few of the asset classes. Global Equity Units is the best performing sector which outperformed its benchmark by 4.89%.

Over the quarter, majority of the accounts outperformed their benchmarks. The best performance (excluding the Cash Account) was shown by Baillie Gifford LTGG Manager which outperformed its benchmark by 8.37%.

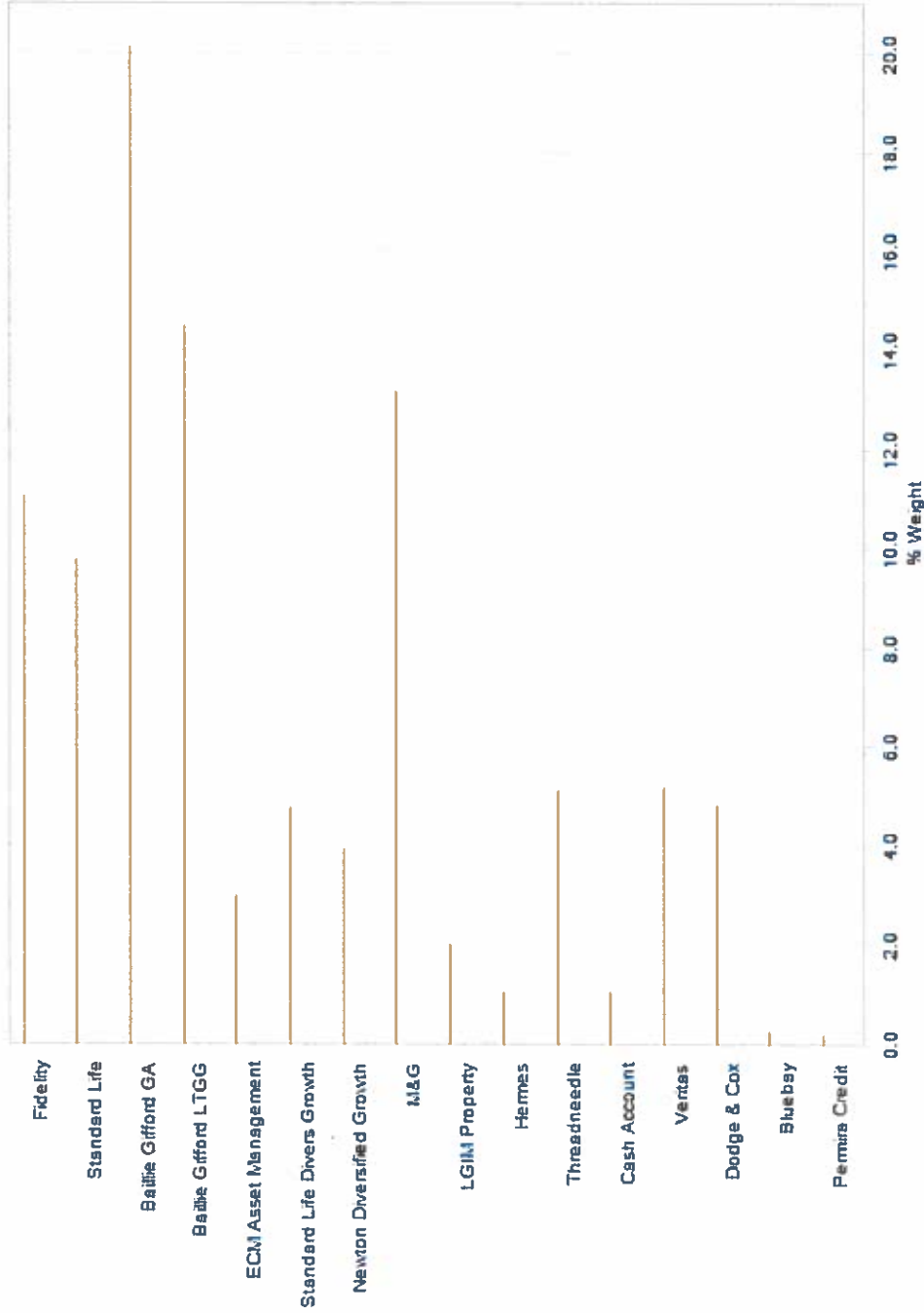
For asset allocation, the fund is closely matched to the benchmark with the largest variances being in UK Equities and Alternatives where the fund is 3.32% and 4.55% underweight respectively.





Fund Allocation - Managers

Manager Allocation - 3 Months Ending 30 June 2017



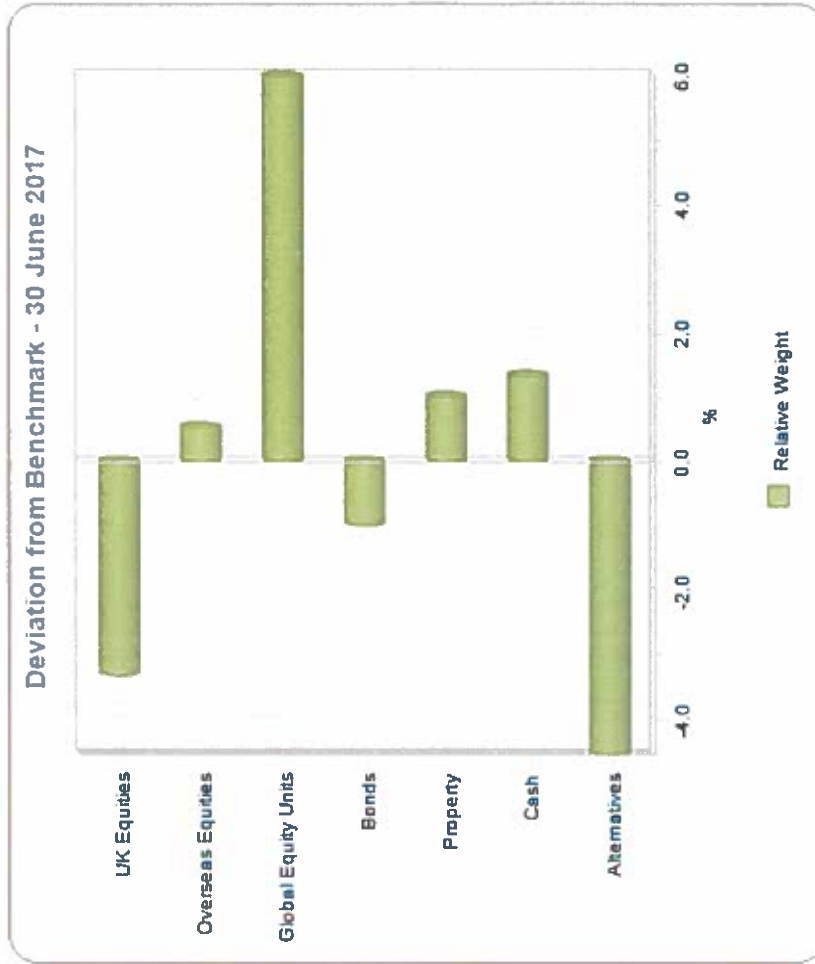
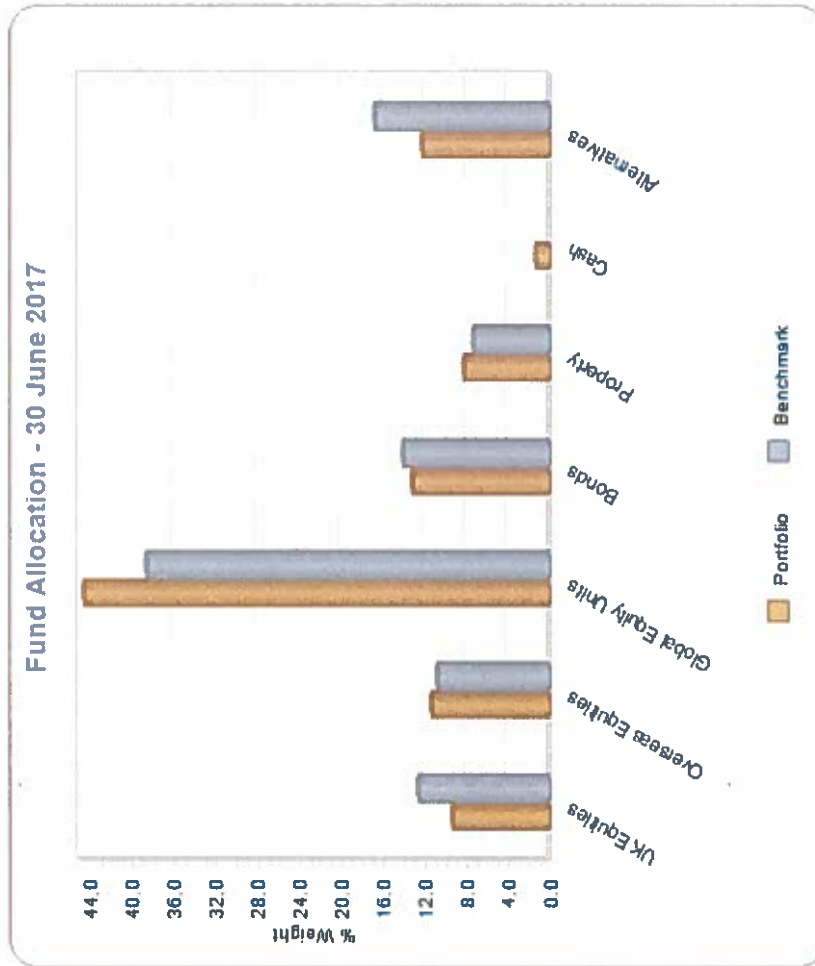
Manager	Weight (%)
Fidelity	11.03
Standard Life	9.78
Baillie Gifford GA	20.12
Baillie Gifford LTGG	14.49
ECM Asset Management	3.00
Standard Life Divers Growth	4.76
Newton Diversified Growth	3.92
M&G	13.18
LGIM Property	2.01
Hermes	1.06
Threadneedle	5.12
Cash Account	1.07
Veritas	5.17
Dodge & Cox	4.82
Bluebay	0.28
Permira Credit	0.20

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Fund Allocation - Relative Analysis



**BNY MELLON**  
ASSET SERVICING



	UK Equities	Overseas Equities	Global Equity Units	Bonds	Property	Cash	Alternatives
Portfolio	9.28	11.34	44.60	13.11	8.20	1.33	12.15
Benchmark	12.60	10.80	38.60	14.10	7.20	1.33	16.70
Relative Weight	-3.32	0.54	6.00	-0.99	1.00	1.33	-4.55

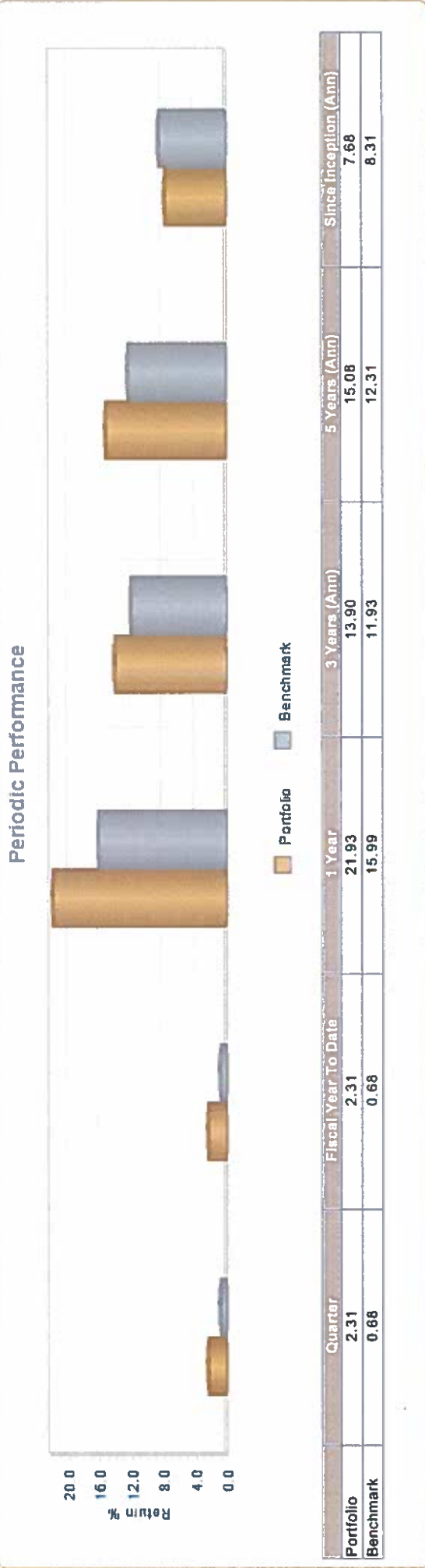


*Fund Performance*



# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Fund Performance - Summary



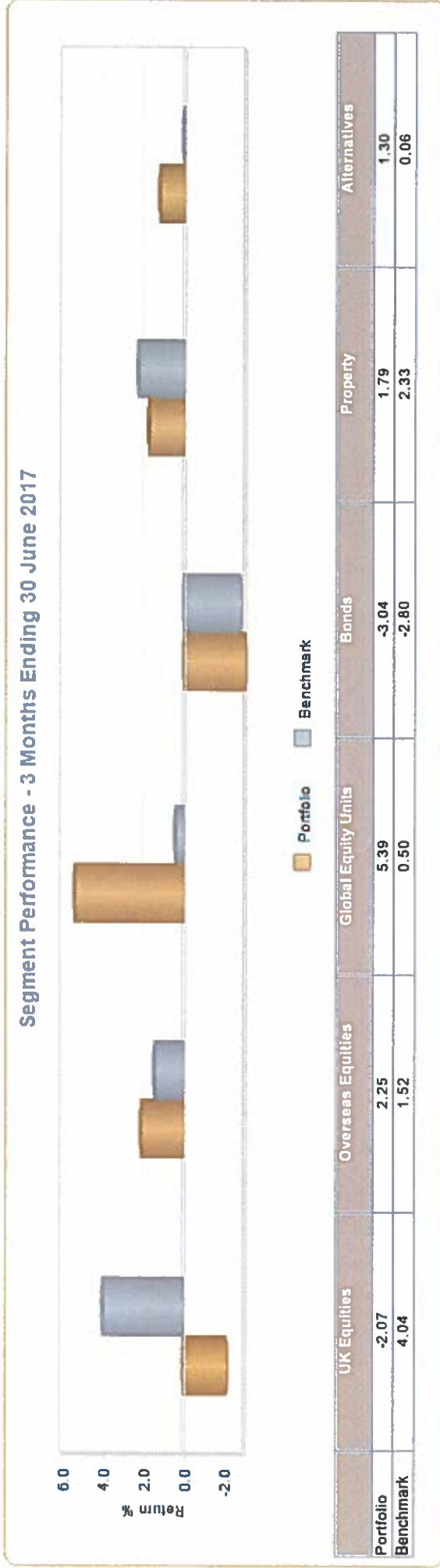
161

Inception Date: 31 Jan 2002

Ann = Annualised



Fund Performance - Segment Analysis



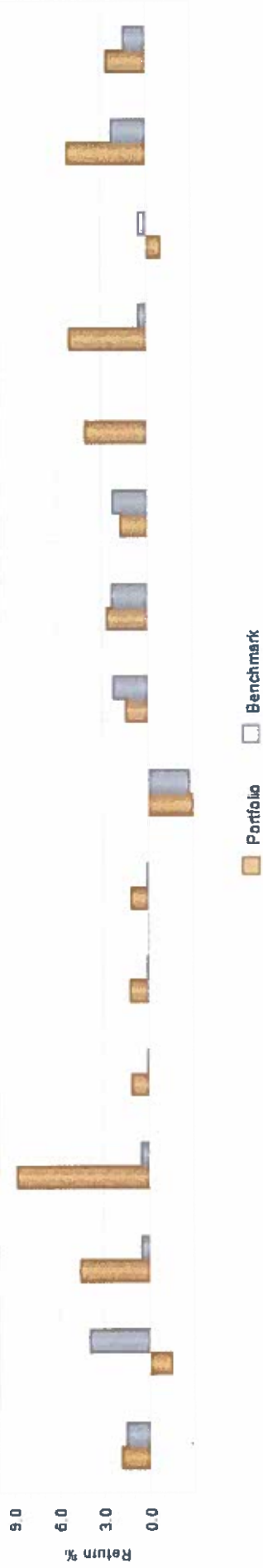
# North Yorkshire County Council - 3 Months Ending 30 June 2017



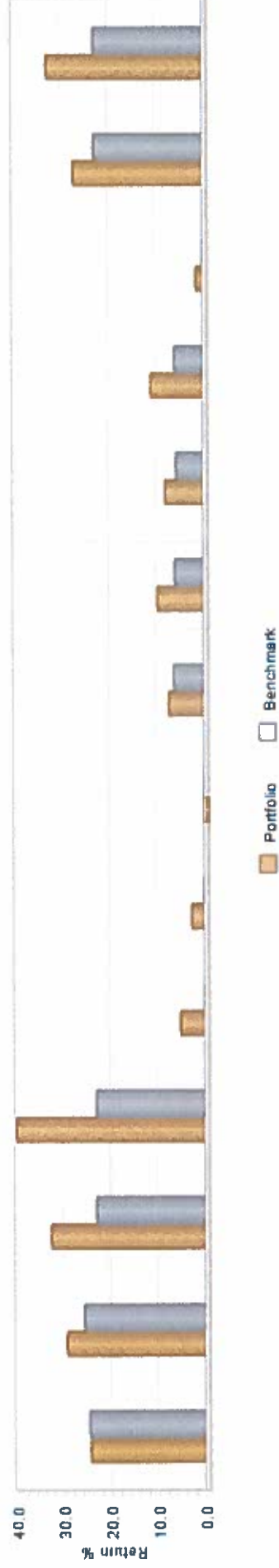
**BNY MELLON**  
ASSET SERVICING

## Fund Performance - Manager Overview

Manager Performance - 3 Months Ending 30 June 2017



Manager Performance - 1 Year Ending 30 June 2017





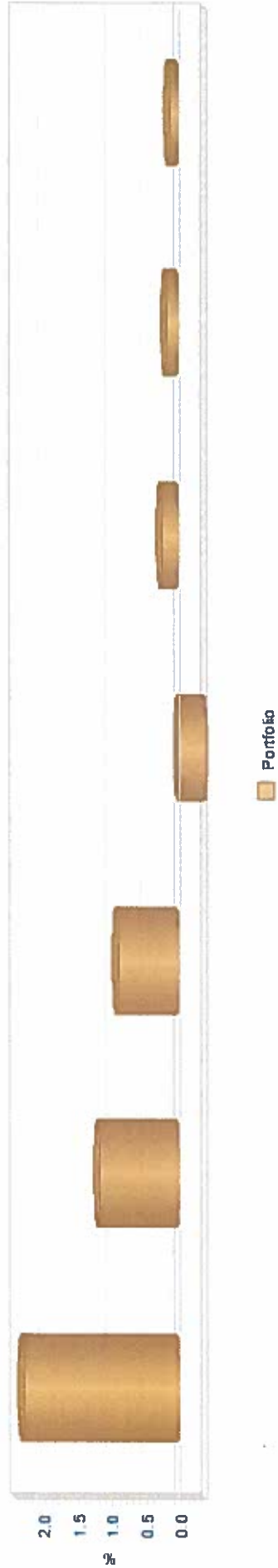
Fund Performance - Contribution Analysis

Source of Contribution - Quarter to 30 June 2017

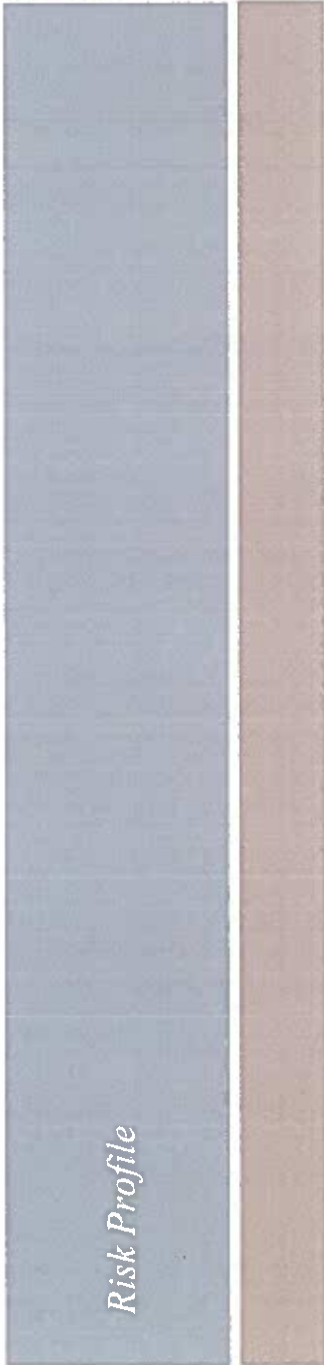


	UK Equities	Overseas Equities	Global Equity Units	Bonds	Property	Cash	Alternatives
Portfolio	-0.19	0.25	2.31	-0.39	0.15	0.03	0.16
Benchmark	0.52	0.17	0.20	-0.38	0.11		0.01

Top 5 Manager Contribution - Quarter to 30 June 2017



	Total Consolidation	Baillie Gifford LTGG	Baillie Gifford GA	M&G	Veritas	Fidelity	Remaining Managers
Portfolio	2.31	1.20	0.91	-0.39	0.25	0.20	0.14





Risk Profile - Historic Risk

Standard Deviation - 3 Years (Ann) to 30 June 2017



Portfolio Benchmark

Portfolio	Total Consolidation	Fidelity	Standard Life	Baillie Gifford GA	Baillie Gifford LTGG	Baillie Gifford ECM Asset Management	Standard Life Divers Growth	Newton Diversified	M&G	LGIM Property	Hermes	Threadneedle
Portfolio	7.30	10.19	12.45	10.33	14.85	2.06	4.24	5.70	15.09	4.63	2.74	8.19
Benchmark	6.61	10.28	10.41	9.81	9.81	0.03	0.03	0.03	15.14	1.65	1.65	1.65

Sharpe Ratio - 3 Years (Ann) to 30 June 2017



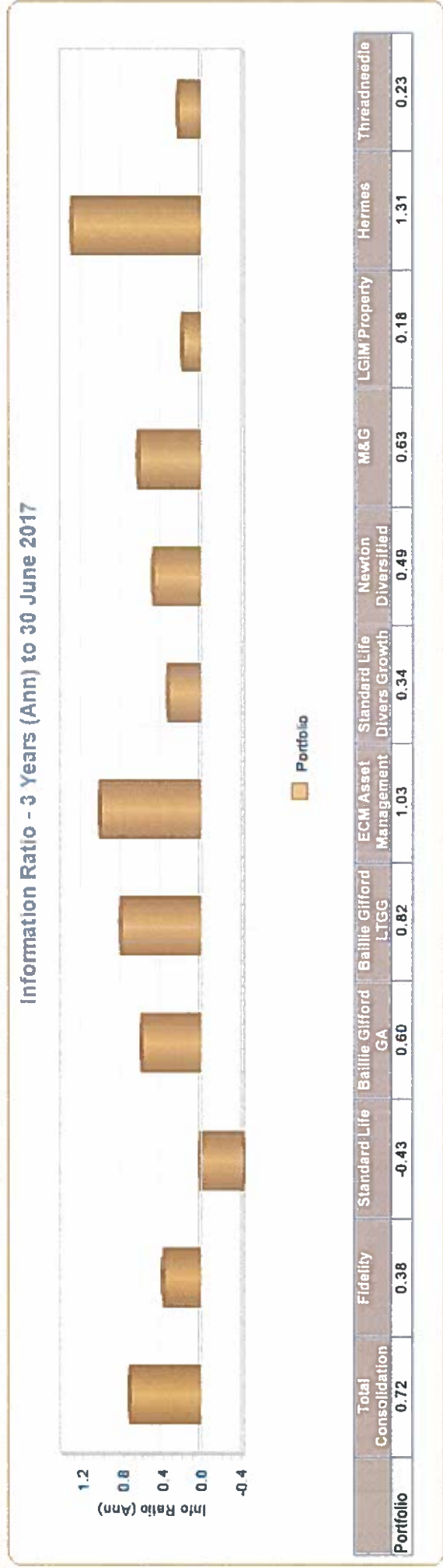
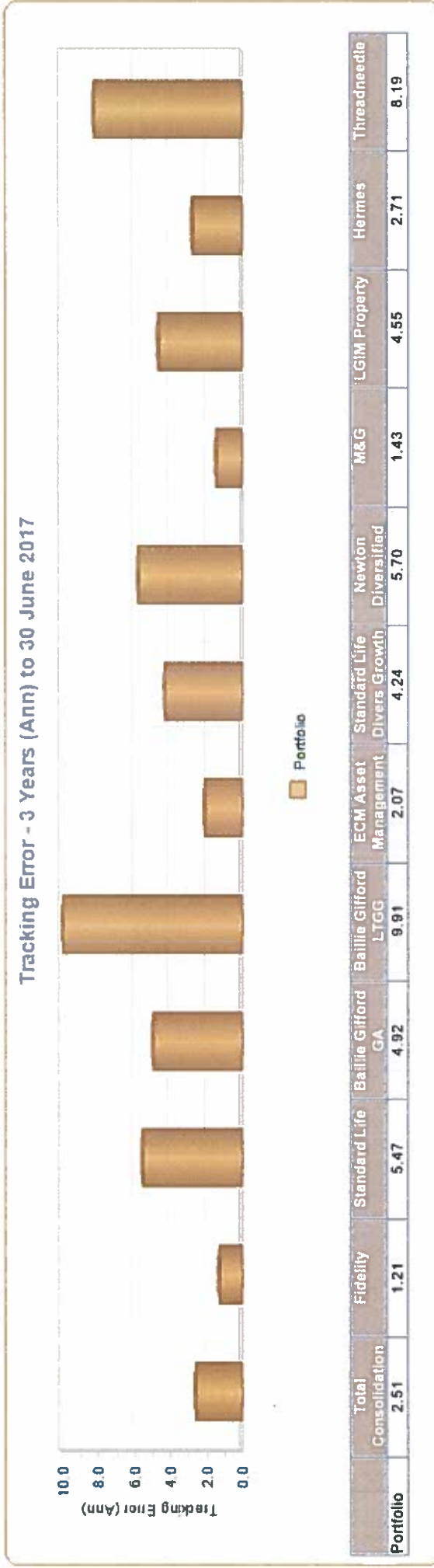
Portfolio Benchmark

Portfolio	Total Consolidation	Fidelity	Standard Life	Baillie Gifford GA	Baillie Gifford LTGG	Baillie Gifford ECM Asset Management	Standard Life Divers Growth	Newton Diversified	M&G	LGIM Property	Hermes	Threadneedle
Portfolio	1.77	1.35	0.57	1.70	1.53	1.03	0.34	0.49	1.09	1.80	4.23	1.15
Benchmark	1.68	1.29	0.91	1.49	1.49	0.00	0.00	0.00	1.02	4.57	4.86	4.57

Ann = Annualised



Risk Profile - Historic Risk



# North Yorkshire County Council - 3 Months Ending 30 June 2017

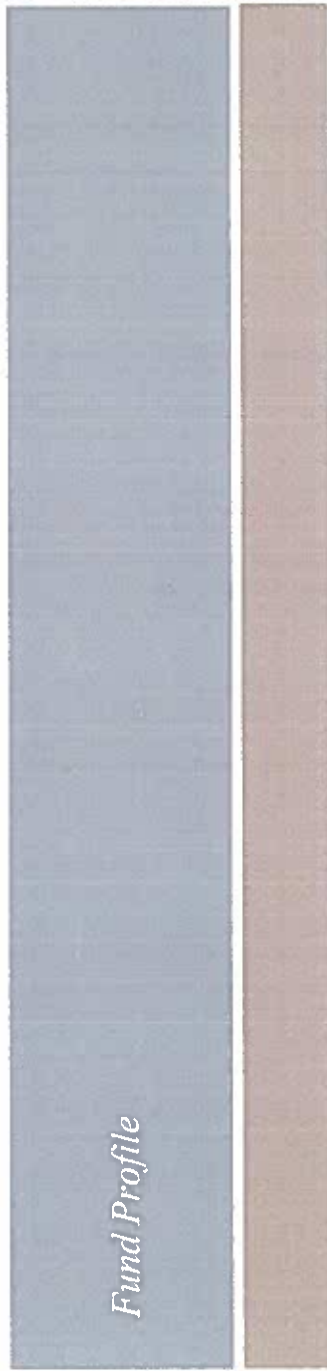


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## Risk Profile - Consistency Analysis

Manager	Active Number of Months	Number of Positive Months	Consistency Rate (%)	Benchmark Consistency (%)	Outperformance (%)
<b>Total Consolidation</b>	<b>186</b>	<b>122</b>	<b>66</b>	<b>68</b>	<b>56</b>
Fidelity	104	67	64	52	53
Standard Life	129	74	57	42	55
Baillie Gifford GA	129	82	64	46	56
Amundi	125	73	58		
Baillie Gifford LTGG	130	80	62	45	54
ECM Asset Management	144	97	67	58	63
Standard Life Divers Growth	52	32	62	100	60
Newton Diversified Growth	52	29	56	100	56
M&G	67	37	55	60	57
LGIM Property	55	49	89	84	58
Hermes	64	51	80	81	56
Threadneedle	61	54	89	83	66
Veritas	27	18	67	67	52
Dodge & Cox	27	18	67	67	44
Bluebay	7	3	43	86	43
Permira Credit	4	2	50	100	50





*Fund Profile*

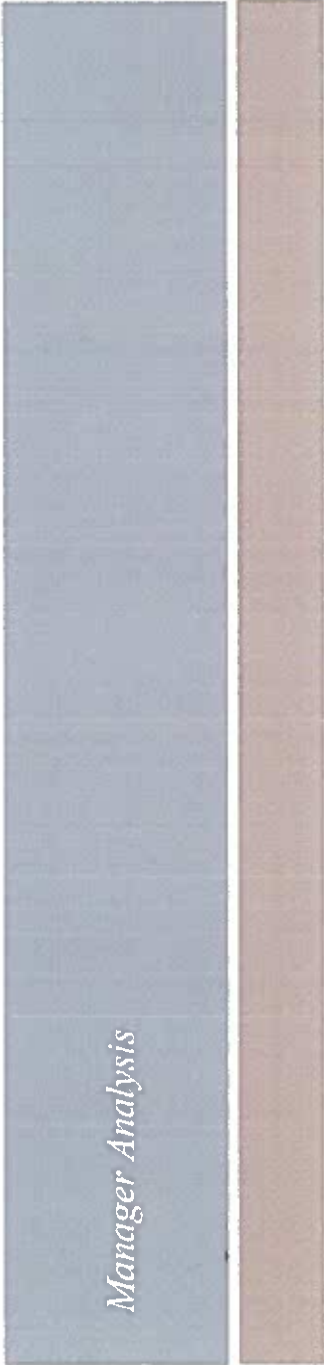
# North Yorkshire County Council - 3 Months Ending 30 June 2017



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## Fund Profile - Movement of Funds

Manager Name	Market Value 31-Mar-2017 (000's)	Net Contributions (000's)	Income (000's)	Gain/Loss (000's)	Market Value 30-Jun-2017 (000's)	% Change
<b>Total Consolidation</b>	<b>3,036,739.06</b>	<b>36,513.11</b>	<b>8,427.68</b>	<b>62,427.78</b>	<b>3,144,107.65</b>	<b>3.54</b>
Total Consolidation	3,036,739.06	36,513.11	8,427.68	62,427.78	3,144,107.65	3.54
Fidelity	340,419.05	0.00	2,888.61	3,397.24	346,704.91	1.85
Standard Life	312,208.41	0.00	3,493.20	-8,109.35	307,592.27	-1.48
Baillie Gifford GA	604,423.67	0.00	0.00	28,198.01	632,621.68	4.67
Baillie Gifford LTGG	418,470.63	0.00	0.00	37,049.80	455,520.43	8.85
ECM Asset Management	93,095.18	0.00	0.00	1,106.77	94,201.95	1.19
Standard Life Divers Growth	138,059.54	10,002.11	0.00	1,698.13	149,759.79	8.47
Newton Diversified Growth	111,777.78	10,000.00	0.00	1,316.27	123,094.05	10.12
M&G	427,134.08	-191.14	571.92	-13,260.38	414,254.48	-3.02
LGIM Property	62,452.78	0.00	0.00	892.64	63,345.42	1.43
Hermes	32,866.44	-300.14	300.14	603.96	33,470.40	1.84
Threadneedle	158,236.52	0.00	0.00	2,740.66	160,977.18	1.73
Cash Account	16,514.18	16,209.12	796.83	-0.39	33,519.76	102.98
Veritas	154,599.40	0.00	0.00	7,910.08	162,509.48	5.12
Dodge & Cox	153,006.60	0.00	0.00	-1,491.87	151,514.73	-0.98
Bluebay	7,570.14	937.03	233.07	71.27	8,811.52	16.40
Permira Credit	5,850.00	-143.86	143.86	304.97	6,154.97	5.21



*Manager Analysis*

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Total Consolidation



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Inception Date: 31 Jan 2002

Portfolio Size and Mandate	
<b>Portfolio Size (GBP)</b>	3,144,107,649
<b>Portfolio Mandate</b>	Total Plan

Allocation - 30 June 2017							
	UK Equities	Overseas Equities	Global Equity	Bonds	Property	Cash	Alternative
Portfolio	9.28	11.34	44.60	13.11	8.20	1.33	12.15
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	2.3	2.3	21.9	13.9	15.1	7.7
Benchmark	0.7	0.7	16.0	11.9	12.3	8.3

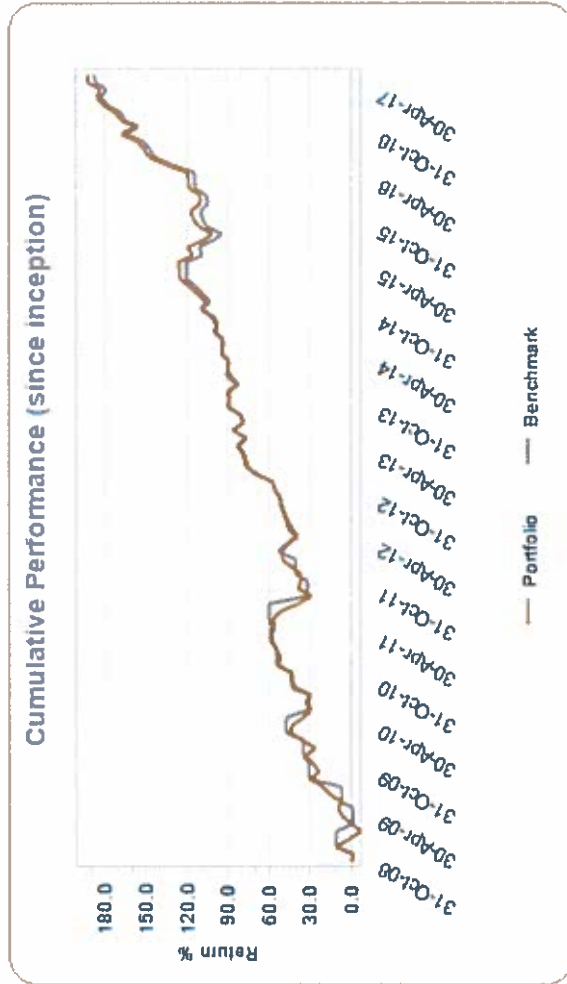
Risk Profile - 3 Years (Ann) to 30 June 2017			
	Standard Deviation	Sharpe Ratio	Information Ratio
Portfolio	7.3	1.8	0.7
Benchmark	6.6	1.7	
		Tracking Error	2.5

### Summary - 3 Months Ending 30 June 2017

The fund's relative performance of the Quarter and 1 Year was 1.6% and 5.9% respectively.

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Fidelity



Inception Date: 30 Nov 2008

173

**Portfolio Size and Mandate**  
**Portfolio Size (GBP)** 346,704,905  
**Portfolio Mandate** Global Equities

**Allocation - 30 June 2017**

UK Equities	Overseas Equities	Cash
0.22	98.56	1.22

Portfolio Benchmark

**Summary - 3 Months Ending 30 June 2017**

The manager's relative performance of the Quarter and 1 Year was 0.3% and -0.4% respectively.

**Periodic Performance**

Quarter	Fiscal Year To Date	1 Year (Ann)	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	1.8	24.2	14.5	15.2	13.1
Benchmark	1.5	24.6	14.0	14.6	12.9

**Risk Profile - 3 Years (Ann) to 30 June 2017**

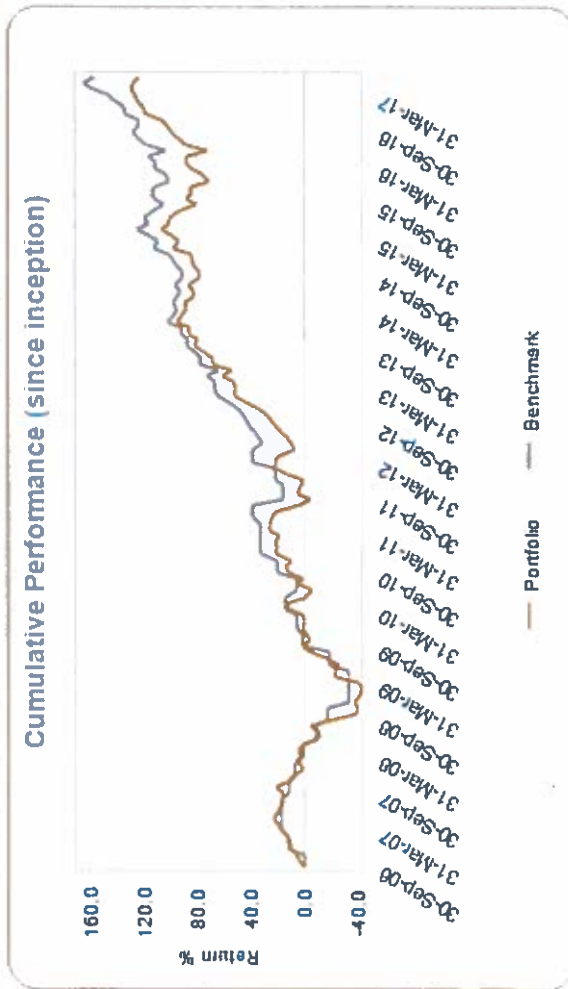
Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	10.2	1.3	1.2
Benchmark	10.3	1.3	0.4

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Standard Life



**BNY MELLON**  
ASSET SERVICING



Inception Date: 31 Oct 2006

### Portfolio Size and Mandate

**Portfolio Size (GBP)**  
307,592,273

**Portfolio Mandate**  
UK Equities

### Allocation - 30 June 2017

	UK Equities	Overseas Equities	Cash
Portfolio	94.61	4.78	0.61
Benchmark	100.00		

### Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	-1.5	-1.5	29.4	7.0	15.3	7.8
Benchmark	4.0	4.0	25.8	9.8	14.6	9.2

### Risk Profile - 3 Years (Ann) to 30 June 2017

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	12.5	0.6	5.5	-0.4
Benchmark	10.4	0.9		

### Summary - 3 Months Ending 30 June 2017

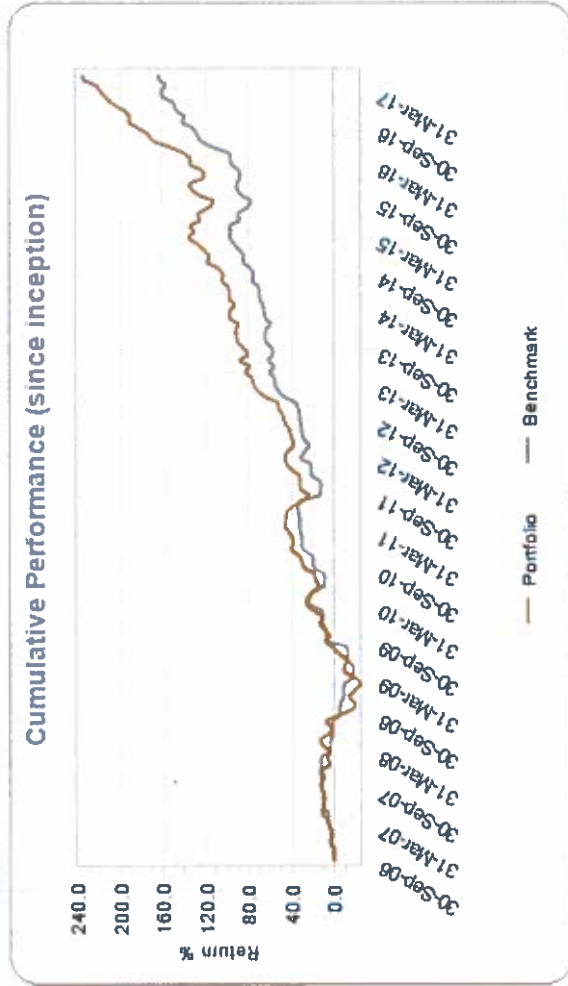
The manager's relative performance of the Quarter and 1 Year was -5.5% and 3.6% respectively.

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Baillie Gifford GA



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Inception Date: 31 Oct 2006

**Portfolio Size and Mandate**  
**Portfolio Size (GBP)**  
 632,621,678  
**Portfolio Mandate**  
 Global Equities

**Allocation - 30 June 2017**  
**Global Equity Units**  
 100.00  
**Cash**  
 0.00

**Portfolio Benchmark**  
 100.00  
 100.00

### Summary - 3 Months Ending 30 June 2017

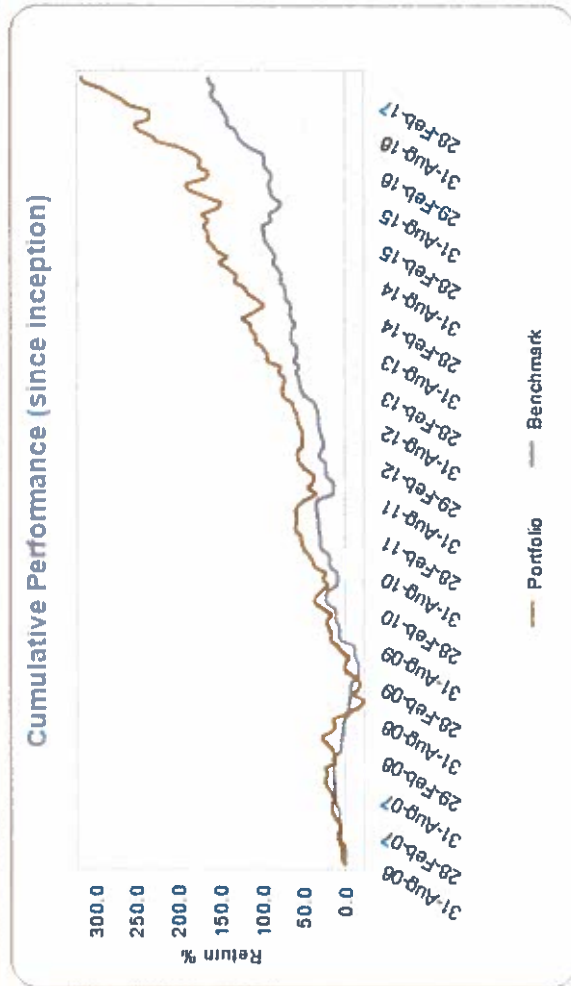
The manager's relative performance of the Quarter and 1 Year was 4.2% and 9.5% respectively.

Periodic Performance						
	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	4.7	4.7	32.5	19.0	19.1	11.9
Benchmark	0.5	0.5	23.0	15.6	15.5	9.4

Risk Profile - 3 Years (Ann) to 30 June 2017			
	Standard Deviation	Sharpe Ratio	Information Ratio
Portfolio	10.3	1.7	0.6
Benchmark	9.8	1.5	4.9

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Baillie Gifford LTGG



Inception Date: 30 Sep 2006

### Portfolio Size and Mandate

#### Portfolio Size (GBP)

455,520,430

#### Portfolio Mandate

Global Equities

### Allocation - 30 June 2017

#### Global Equity Units

100.00  
100.00

Portfolio  
Benchmark

### Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	8.9	8.9	40.0	24.5	22.4	14.1
Benchmark	0.5	0.5	23.0	15.6	15.5	

### Risk Profile - 3 Years (Ann) to 30 June 2017

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	14.9	1.5	9.9	0.8
Benchmark	9.8	1.5		

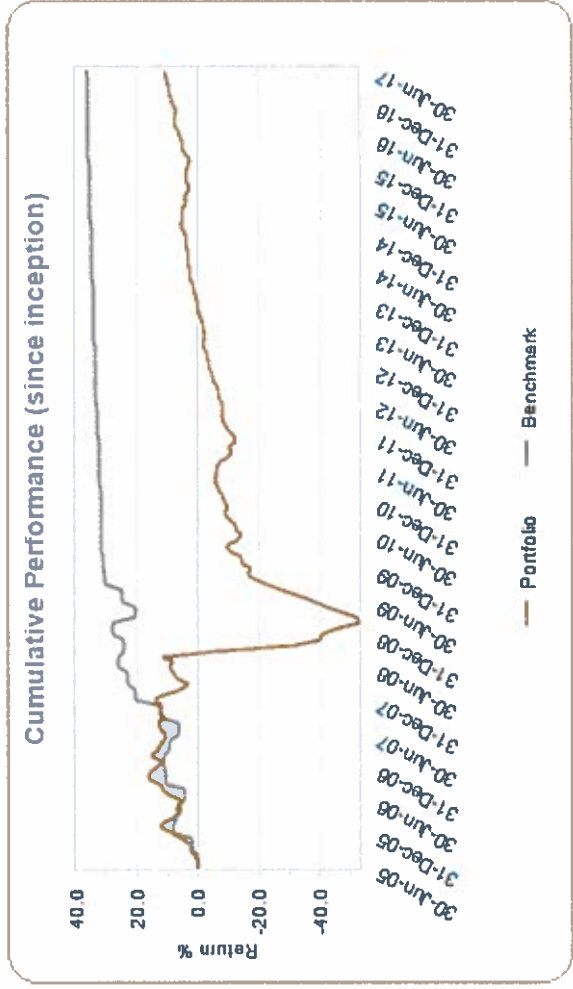
### Summary - 3 Months Ending 30 June 2017

The manager's relative performance of the Quarter and 1 Year was 8.4% and 17.0% respectively.



# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - ECM Asset Management



**Portfolio Size and Mandate**  
**Portfolio Size (GBP)**  
 94,201,946  
**Portfolio Mandate**  
 Alternatives

**Allocation - 30 June 2017**  
**Alternatives**  
 100.00  
 100.00

**Portfolio Benchmark**

Inception Date: 31 Jul 2005

**Periodic Performance**

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	1.2	1.2	5.2	2.6	3.8	0.9
Benchmark	0.1	0.1	0.3	0.4	0.5	2.6

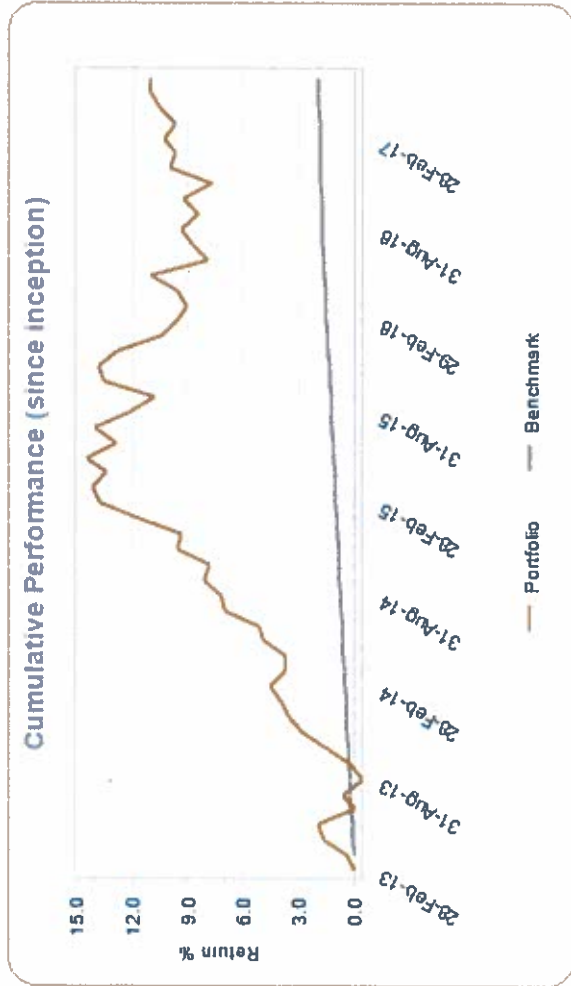
**Risk Profile - 3 Years (Ann) to 30 June 2017**

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	2.1	1.0	2.1	1.0
Benchmark	0.0	0.0		

**Summary - 3 Months Ending 30 June 2017**  
 The manager's relative performance of the Quarter and 1 Year was 1.1% and 4.9% respectively.

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Standard Life Divers Growth



Inception Date: 31 Mar 2013

### Portfolio Size and Mandate

#### Portfolio Size (GBP)

149,759,787

#### Portfolio Mandate

Diversified Growth

### Allocation - 30 June 2017

Portfolio Benchmark	Cash	Alternatives
0.00	0.00	100.00
100.00		100.00

### Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	Since Inception (Ann)
Portfolio	1.2	1.2	2.9	1.8	2.4
Benchmark	0.1	0.1	0.3	0.4	0.5

### Risk Profile - 3 Years (Ann) to 30 June 2017

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	4.2	0.3	4.2	0.3
Benchmark	0.0	0.0		

### Summary - 3 Months Ending 30 June 2017

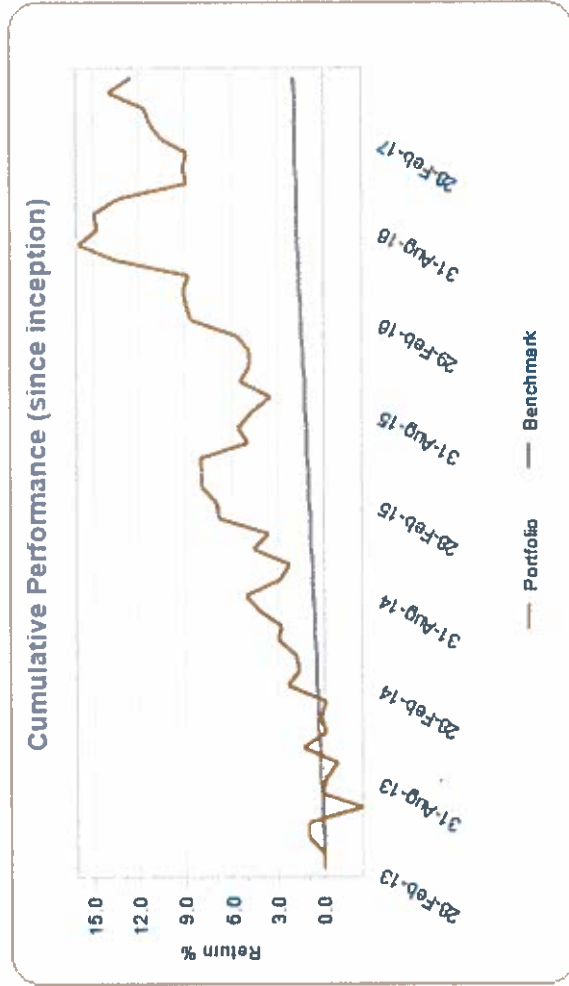
The manager's relative performance of the Quarter and 1 Year was and 1.1% and 2.6% respectively.

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Newton Diversified Growth



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Inception Date: 31 Mar 2013

**Portfolio Size and Mandate**  
**Portfolio Size (GBP)**  
 123,094,046  
**Portfolio Mandate**  
 Diversified Growth

**Allocation - 30 June 2017**  
**Alternatives**  
 100.00  
 100.00  
**Portfolio Benchmark**

**Periodic Performance**

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	Since Inception (Ann)
Portfolio	1.1	1.1	-0.9	3.1	2.8
Benchmark	0.1	0.1	0.3	0.4	0.5

**Risk Profile - 3 Years (Ann) to 30 June 2017**

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	5.7	0.5	5.7	0.5
Benchmark	0.0	0.0		

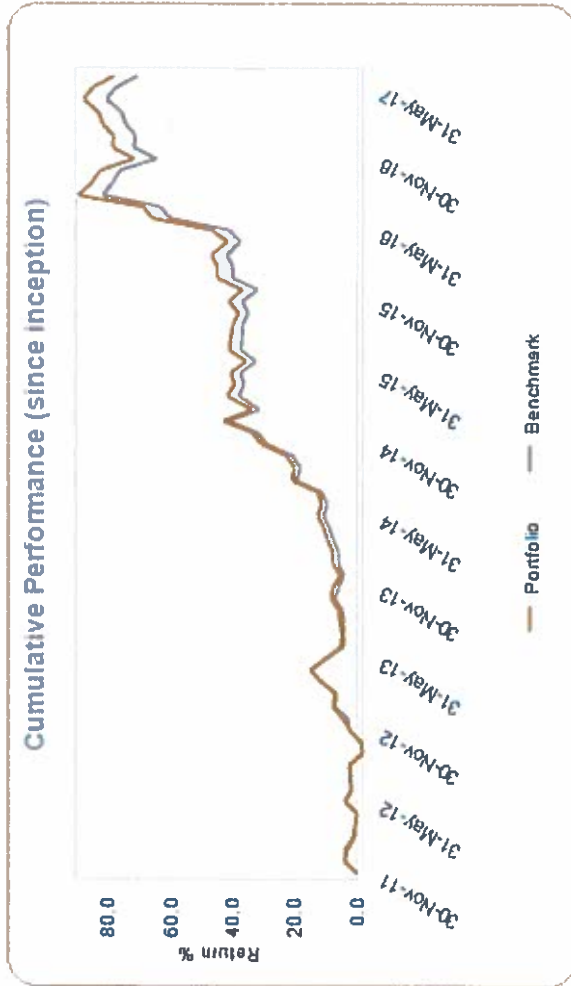
**Summary - 3 Months Ending 30 June 2017**  
 The manager's relative performance of the Quarter and 1 Year was 1.0% and -1.2% respectively.

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - M&G



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Inception Date: 31 Dec 2011

### Portfolio Size and Mandate

#### Portfolio Size (GBP)

414,254,480

#### Portfolio Mandate

Global Bonds

### Allocation - 30 June 2017

**Bonds**

Portfolio  
Benchmark

99.48

**Cash**

0.52

### Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	-3.0	-3.0	7.4	16.9	11.9	10.9
Benchmark	-2.8	-2.8	6.5	15.9	10.9	10.1

### Summary - 3 Months Ending 30 June 2017

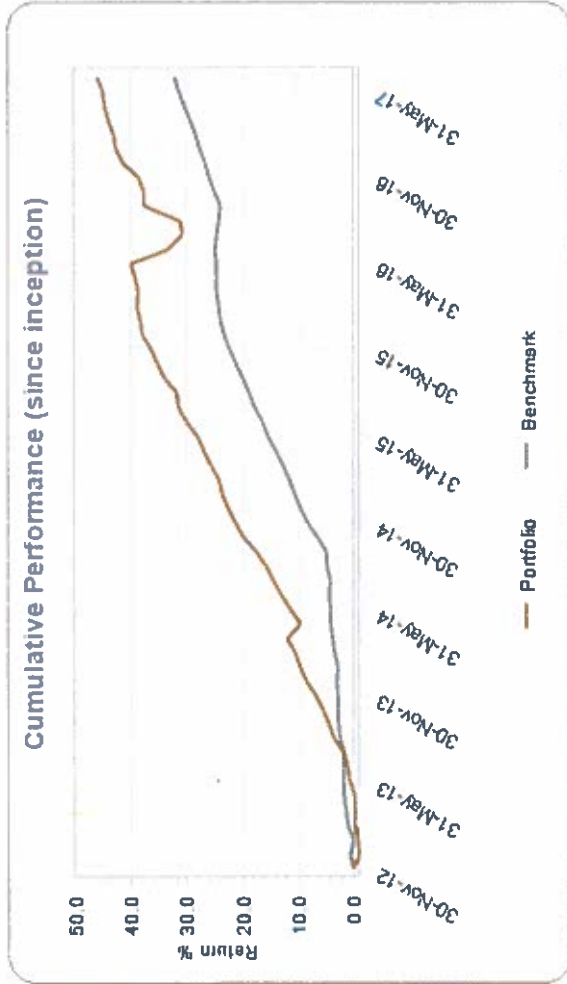
The manager's relative performance of the Quarter and 1 Year was -0.2% and 0.9% respectively.

### Risk Profile - 3 Years (Ann) to 30 June 2017

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	15.1	1.1	1.4	0.6
Benchmark	15.1	1.0		

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - LGIM Property



Inception Date: 31 Dec 2012

**Portfolio Size and Mandate**  
**Portfolio Size (GBP)**  
 63,345,416  
**Portfolio Mandate**  
 Property

**Allocation - 30 June 2017**  
**Property**  
 100.00  
 100.00

**Portfolio Benchmark**

### Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	Since Inception (Ann)
Portfolio	1.4	1.4	9.7	9.0	8.7
Benchmark	2.3	2.3	6.0	8.2	6.3

### Risk Profile - 3 Years (Ann) to 30 June 2017

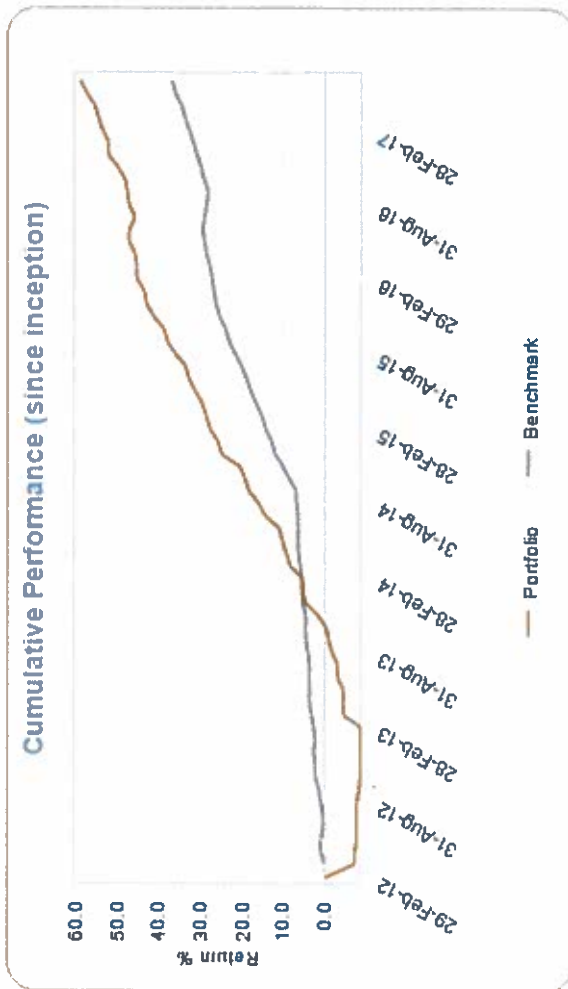
	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	4.6	1.8	4.6	0.2
Benchmark	1.6	4.6		

### Summary - 3 Months Ending 30 June 2017

The manager's relative performance of the Quarter and 1 year was -0.9% and 3.7% respectively.

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Hermes



Inception Date 31 Mar 2012

**Portfolio Size and Mandate**  
**Portfolio Size (GBP)**  
 33,470,402

**Portfolio Mandate**  
 Property

**Allocation - 30 June 2017**

**Portfolio** 100.00  
**Benchmark** 100.00

### Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	2.8	2.8	8.0	12.6	11.5	9.1
Benchmark	2.4	2.4	5.7	8.8	6.4	6.2

### Risk Profile - 3 Years (Ann) to 30 June 2017

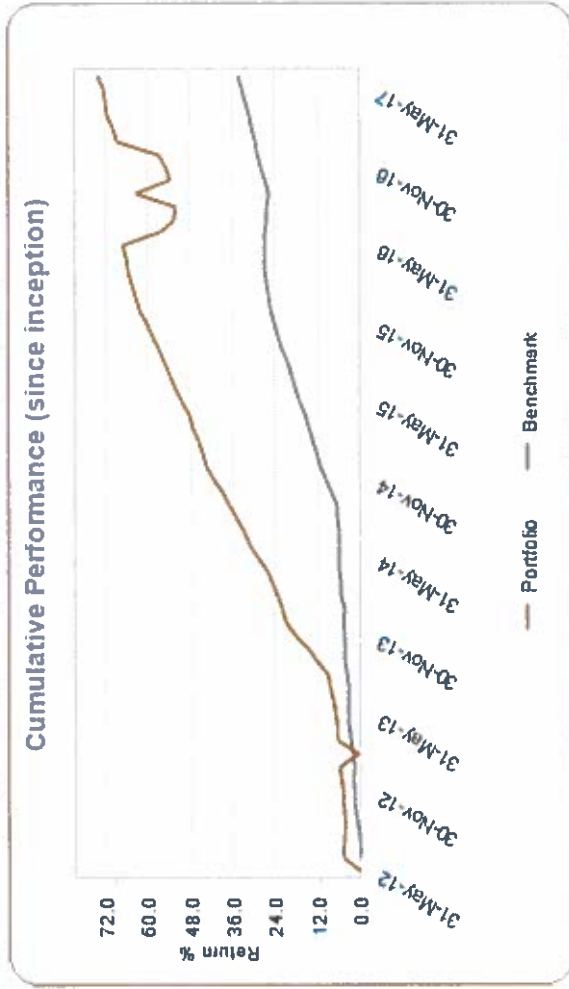
	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	2.7	4.2	2.7	1.3
Benchmark	1.6	4.9		

### Summary - 3 Months Ending 30 June 2017

The manager's relative performance of the Quarter and 1 Year was 0.4% and 2.3% respectively.

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Threadneedle



Inception Date: 30 Jun 2012

### Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	1.7	1.7	11.2	9.9	10.7	11.5
Benchmark	2.3	2.3	6.0	8.2	6.1	6.1

### Risk Profile - 3 Years (Ann) to 30 June 2017

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	8.2	1.1	8.2	0.2
Benchmark	1.6	4.6		

### Portfolio Size and Mandate

#### Portfolio Size (GBP)

160,977,184

#### Portfolio Mandate

Property

### Allocation - 30 June 2017

Portfolio Benchmark	Allocation
Property	100.00
Benchmark	100.00

### Summary - 3 Months Ending 30 June 2017

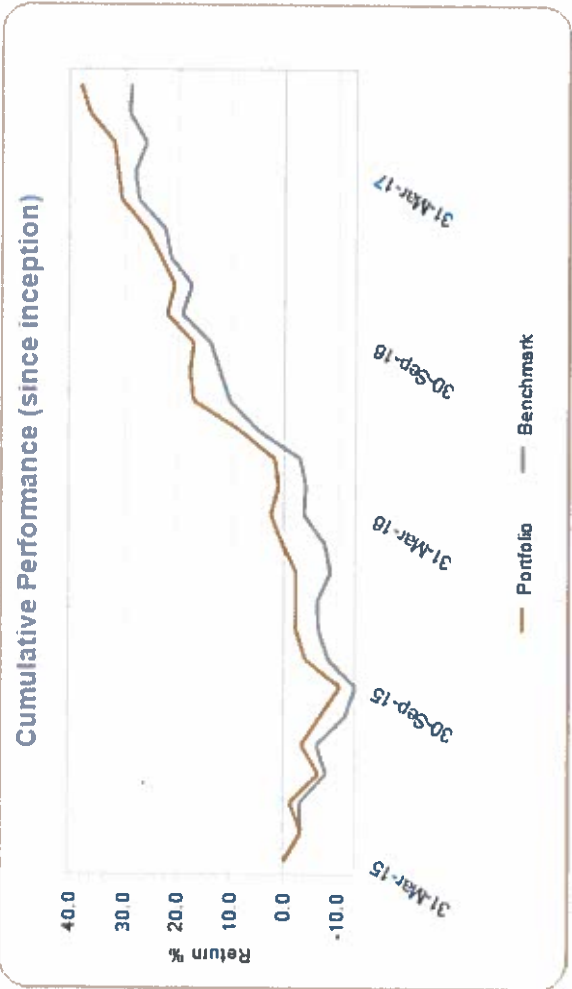
The manager's relative performance of the Quarter and 1 Year was -0.6% and 5.2% respectively.

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Veritas



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Inception Date: 30 Apr 2015

**Portfolio Size and Mandate**  
**Portfolio Size (GBP)**  
 162,509,482  
**Portfolio Mandate**  
 Global Equities

**Allocation - 30 June 2017**  
**Global Equity Units**  
 Portfolio 100.00  
 Benchmark 100.00

**Periodic Performance**

	Quarter	Fiscal Year To Date	1 Year	Since Inception (Ann)
Portfolio	5.1	5.1	27.2	15.5
Benchmark	0.6	0.6	22.9	12.0

**Risk Profile - 3 Years (Ann) to 30 June 2017**

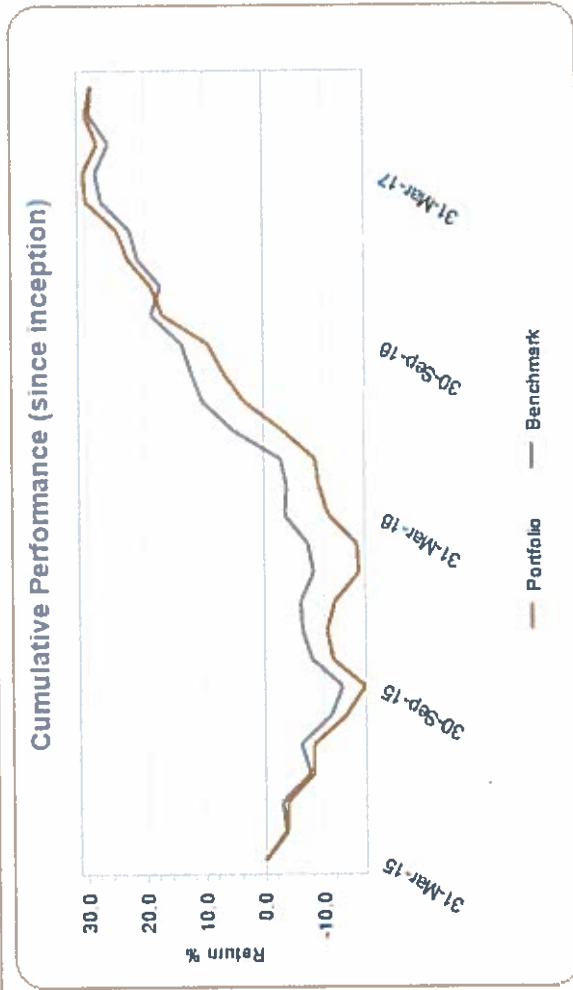
	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio				
Benchmark				

**Summary - 3 Months Ending 30 June 2017**  
 The manager's relative performance of the Quarter and 1 Year was 4.5% and 4.3% respectively.



# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Dodge & Cox



Inception Date: 30 Apr 2015

**Portfolio Size and Mandate**  
**Portfolio Size (GBP)**  
 151,514,728

**Portfolio Mandate**  
 Global Equities

**Allocation - 30 June 2017**

**Global Equity Units**  
 100.00  
 100.00

**Portfolio Benchmark**

**Periodic Performance**

Quarter	Fiscal Year To Date	1 Year	Since Inception (Ann)
Portfolio	-1.0	33.1	12.0
Benchmark	0.6	22.9	12.0

**Risk Profile - 3 Years (Ann) to 30 June 2017**

Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	0.6		
Benchmark			

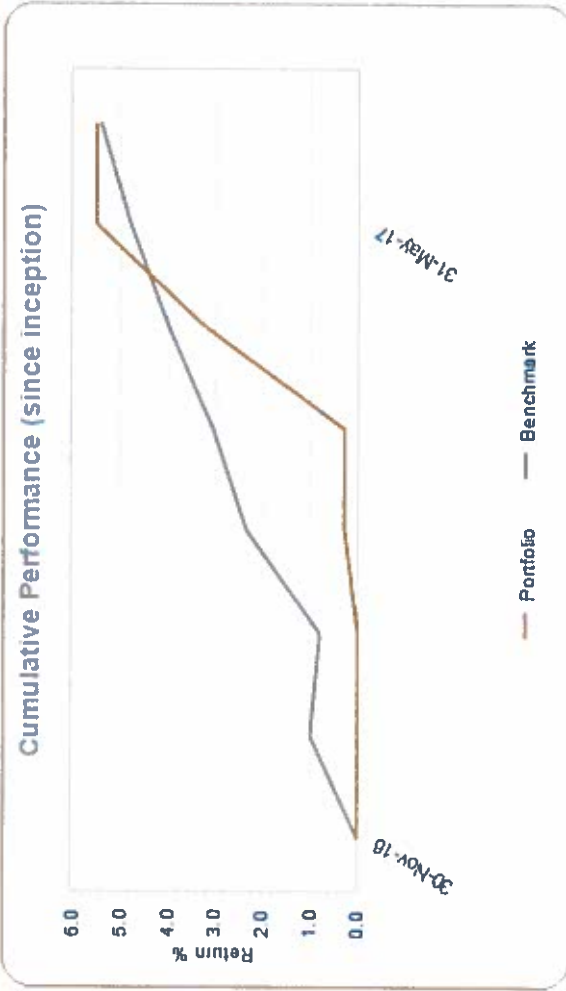
**Summary - 3 Months Ending 30 June 2017**  
 The manager's relative performance of the Quarter and 1 Year was -1.6% and 10.2% respectively.

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Bluebay



**BNY MELLON**  
ASSET SERVICING



Inception Date: 31 Dec 2016

### Portfolio Size and Mandate

#### Portfolio Mandate

Alternatives

#### Portfolio Size (GBP)

8,811,517

### Allocation - 30 June 2017

#### Alternatives

Portfolio Benchmark

100.00

### Periodic Performance

	Quarter	Fiscal Year To Date	Since Inception (Ann)
Portfolio	5.2	5.2	5.5
Benchmark	2.3	2.3	5.4

### Risk Profile - 3 Years (Ann) to 30 June 2017

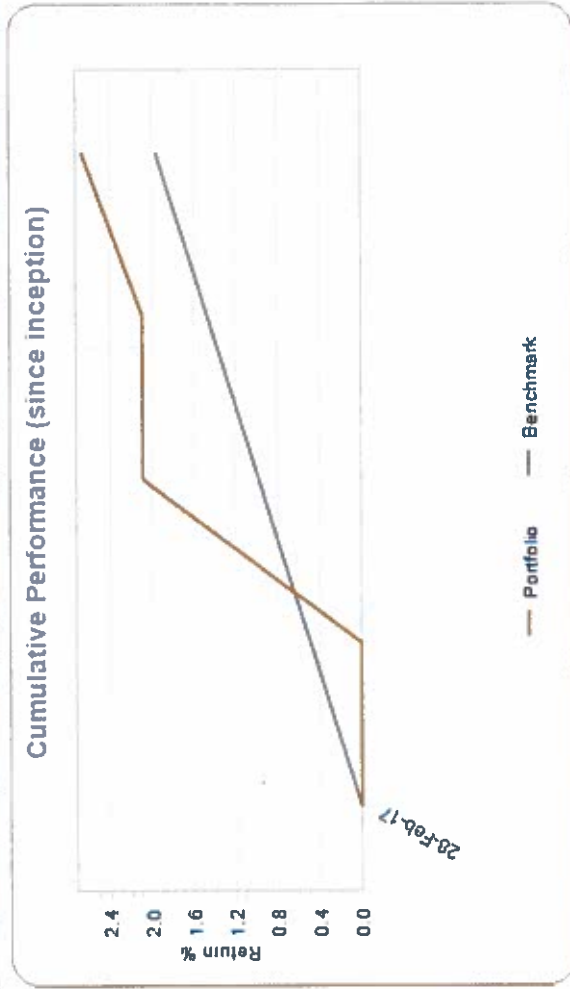
	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio				
Benchmark				

### Summary - 3 Months Ending 30 June 2017

The manager's relative performance of the Quarter was 2.9 respectively.

# North Yorkshire County Council - 3 Months Ending 30 June 2017

## Manager Analysis - Permira Credit



Inception Date: 31 Mar 2017

**Portfolio Size and Mandate**  
**Portfolio Size (GBP)**  
 6,154,966  
**Portfolio Mandate**

**Allocation - 30 June 2017**

Category	Value
Cash	0.00
Alternatives	100.00

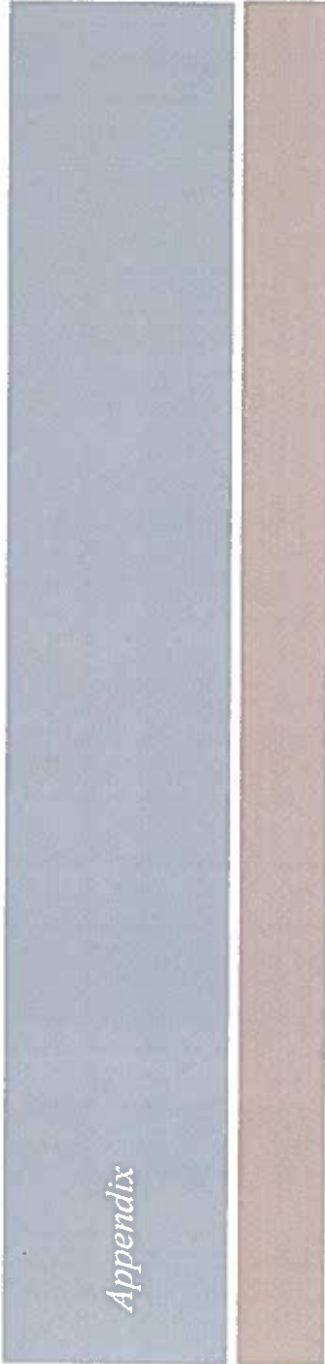
**Periodic Performance**

	Quarter	Fiscal Year To Date	Since Inception (Ann)
Portfolio	2.7	2.7	2.7
Benchmark	1.5	1.5	2.0

**Summary - 3 Months Ending 30 June 2017**  
 The manager's relative performance of the Quarter was 1.2 respectively.

**Risk Profile - 3 Years (Ann) to 30 June 2017**

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio				
Benchmark				





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 the benchmark.

**Interaction Effect** - Measures the combined impact of an investment manager's selection and allocation decisions within a segment.



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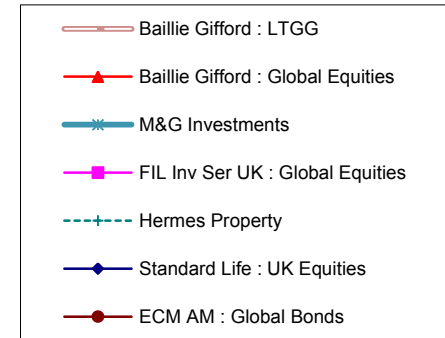
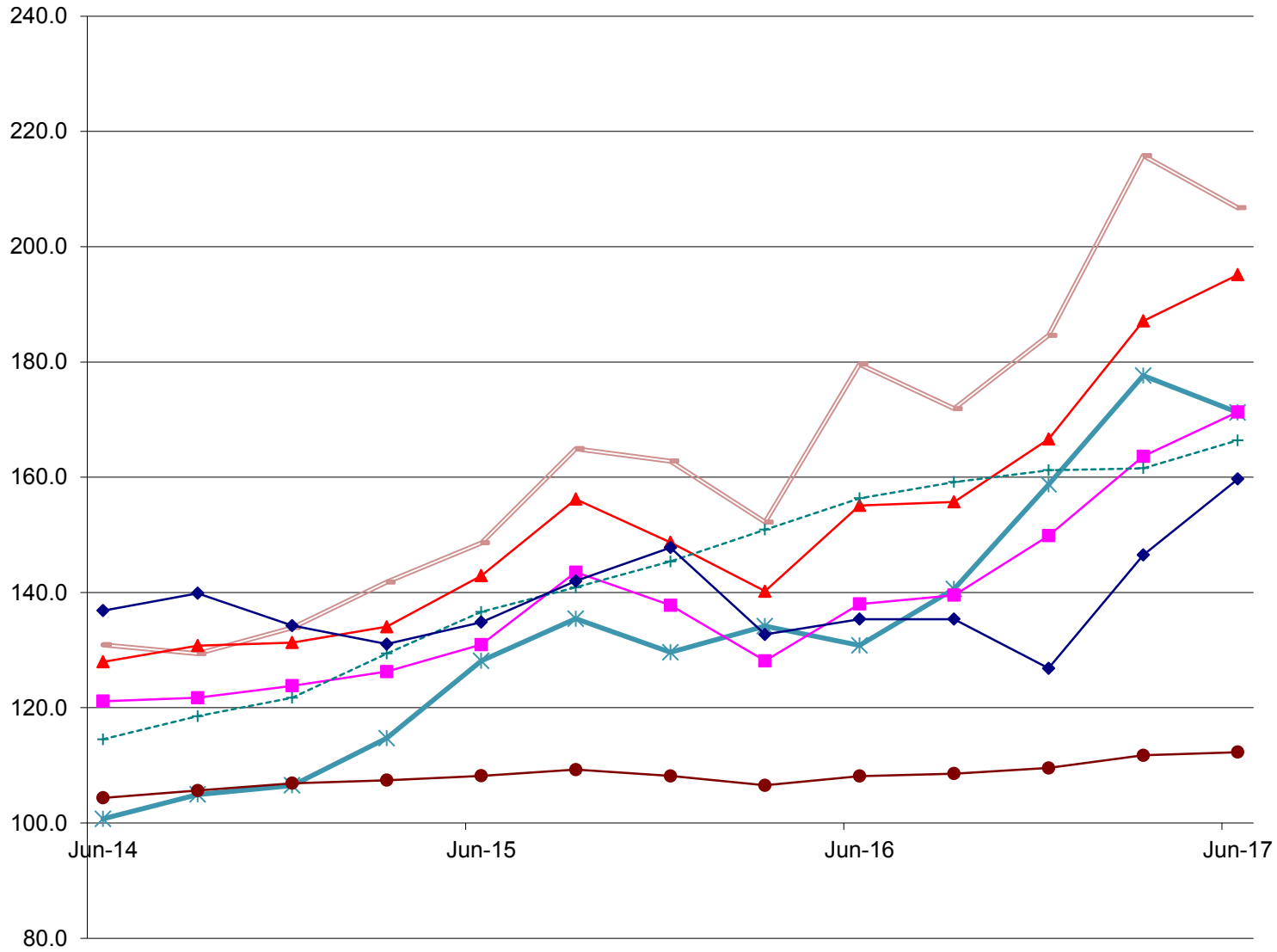
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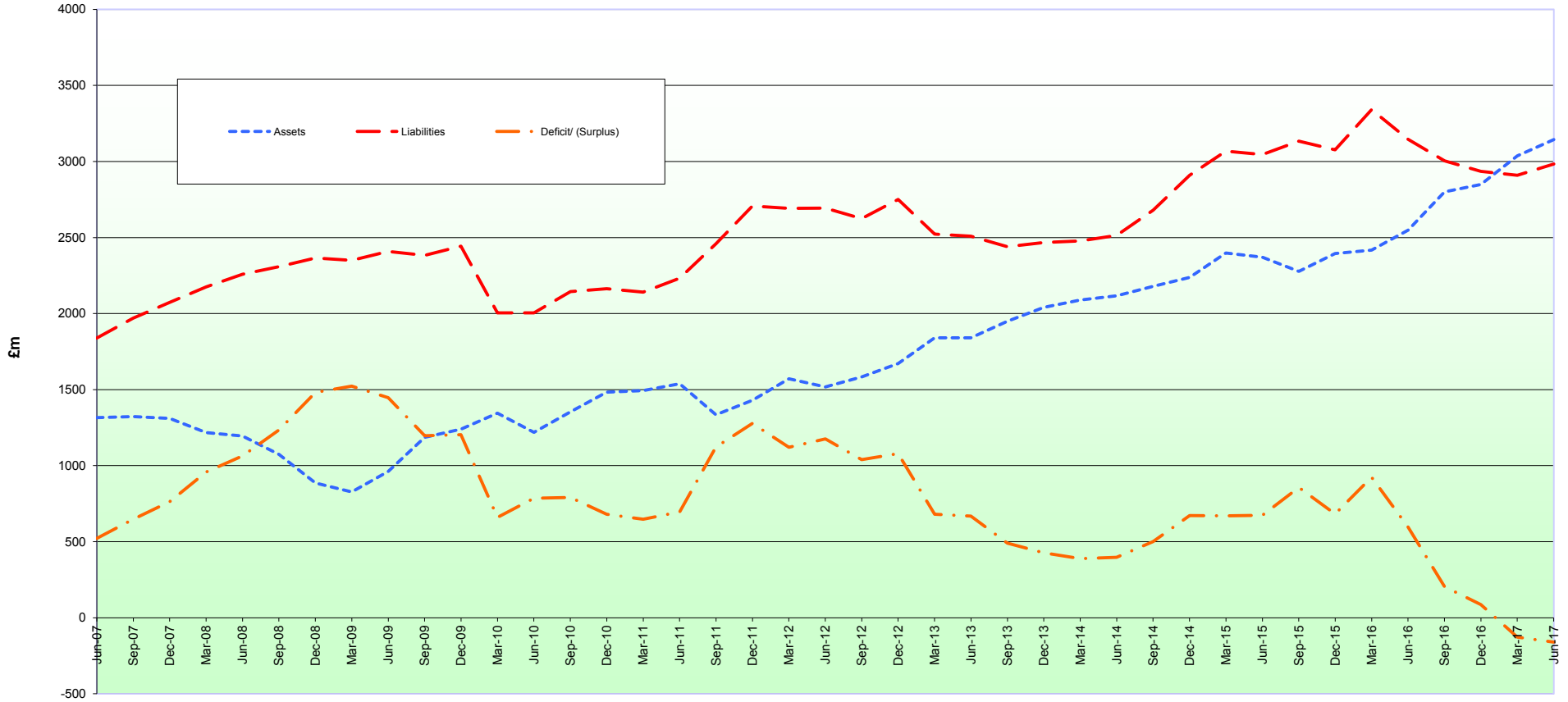
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### Investment Manager Performance - cumulative absolute performance 3 years to June 2017



## North Yorkshire Pension Fund Assets, Liabilities and Deficit



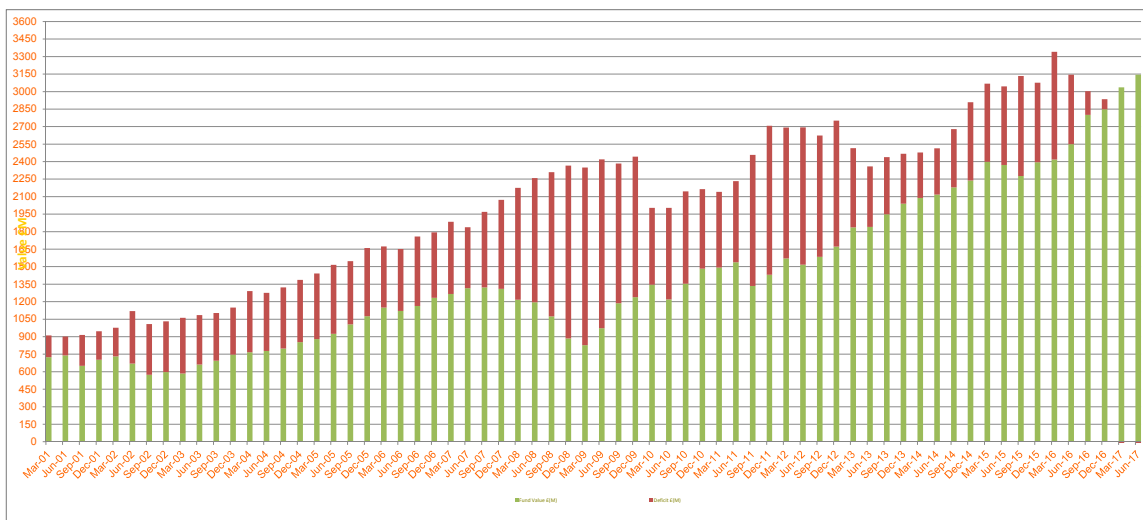


**Actuarial Model of Quarterly Solvency Position**

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%	265	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	4,386
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	68%	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%	958	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	1836	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
September 30, 2016	93%	203	2801	6,899
December 31, 2016	97%	86	2849	7,143
March 31, 2017	104%	-127.2	3036	7,323
June 30, 2017	105%	-160.2	3144	7,313

Triennial valuation results highlighted in grey

**Movement in Assets and Liabilities**



**NORTH YORKSHIRE COUNTY COUNCIL****PENSION FUND COMMITTEE****14 SEPTEMBER 2017****LGPS POOLING ARRANGEMENTS****Report of the Treasurer****1.0 PURPOSE OF REPORT**

- 1.1 To update Members on progress towards the Government's announced proposal to pool the assets of LGPS funds.
- 1.2 To provide a formal view on Scheme Member representation on the Joint Committee.

**2.0 RECENT EVENTS**

- 2.1 The Joint Committee had its last meeting on 6 June 2017. A verbal update on this meeting and other BCPP developments will be provided at the meeting by the Treasurer and Chairman.

**3.0 NEXT STEPS**

- 3.1 The Committee has previously discussed Scheme Member representation within the governance arrangements intended for pooling. There have been further requests for such representation, particularly from trades unions. This matter has previously been discussed at Committee but BCPP are now being asked for a formal view on this issue.
- 3.2 The next Joint Committee is to be held on 20 October 2017. In this meeting the Chairs will be asked to present their Fund's formal position on Scheme Member representation on the Joint Committee. PFC Members are therefore asked to consider this matter and decide whether they support formal Scheme Member representation on the Joint Committee.
- 3.3 It should be noted that meetings of the Joint Committee will be public meetings so will be open to all parties. The issue of formal representation will therefore confer right to speak and whether or not the nominated Scheme Member representative can vote. It is also relevant to note the terms of reference for the Joint Committee which is attached as an **Appendix**.

#### **4.0 RECOMMENDATION**

- 4.1 Members are requested to provide a formal position on Scheme Member representation on the Joint Committee

GARY FIELDING  
Treasurer  
Central Services  
County Hall  
Northallerton

1 September 2017

## Terms of Reference of the Joint Committee

1. The primary purpose of the Joint Committee is to exercise oversight over the investment performance of the collective investment vehicles comprised in the BCPP Pool.
1. The Joint Committee will provide effective engagement with the Authorities as the BCPP Pool vehicles are established and ultimately operated. It will encourage best practice, operate on the basis that all partners have an equal say and promote transparency and accountability to each Authority.

The remit of the Joint Committee is:

### 1.1 **First Phase – Period to April 2018 or operational commencement of the BCPP Pool (whichever is the later)**

- 1.1.1 To provide support and guidance to the work being undertaken by the Officer Operations Group to give effect to the pooling arrangements.
- 1.1.2 To consider issues and provide feedback on relevant proposals as they are developed, ensuring effective engagement with the Authorities to scrutinise and monitor project management arrangements and proposals for the appointment of advisers by the Authorities.
- 1.1.3 To oversee costs to deliver the BCPP Pool, obtaining approval from individual Authorities where necessary.
- 1.1.4 To monitor and scrutinise responsibilities for delivery of the project and relevant support arrangements.
- 1.1.5 To oversee and provide feedback on positions and conclusions deriving from work streams adopted by the Officer Operations Group.
- 1.1.6 To formulate processes and policies for appointment and termination of membership to the Joint Committee.
- 1.1.7 To propose and confirm contracts and policies required by the Authorities to commence transition to the BCPP Pool arrangements.
- 1.1.8 To provide support and guidance to the work being undertaken by the Officer Operations Group to do all things necessary to implement the final proposal, including preparatory work for asset transition.
- 1.1.9 To consider the initial range of sub-funds to be provided by the ACS and to make recommendations to the BCPP Board for the creation of those sub funds.
- 1.1.10 To review and comment on the draft ACS prospectus and supporting documents on behalf of the Authorities prior to the Financial Conduct Authority approval.

### 1.2 **Phase 2 – Post Establishment and Commencement of Operations**

- 1.2.1 To facilitate the adoption by the Authorities of relevant contracts and policies.
- 1.2.2 To consider requests for the creation of additional ACS sub funds (or new collective investment vehicles) and to make recommendations to the BCPP Board as to the creation of additional sub funds (or new collective investment vehicles).

- 1.2.3 To consider from time to time the range of sub funds offered and to make recommendations as to winding up and transfer of sub funds to the BCPP Board.
- 1.2.4 To review and comment on the draft application form for each additional individual ACS sub fund on behalf of the Authorities prior to the Financial Conduct Authority approval (or the draft contractual documents for any new collective investment vehicle).
- 1.2.5 To formulate and propose any common voting policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 1.2.6 To formulate and propose any common ESG/RI policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 1.2.7 To formulate and propose any common conflicts policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 1.2.8 To agree on behalf of the Authorities high level transition plans on behalf of the Authorities for approval by the Authorities for the transfer of BCPP Pool assets.
- 1.2.9 To oversee performance of the BCPP Pool as a whole and of individual sub funds by receiving reports from the BCPP Board and taking advice from the Officer Operations Group on those reports along with any external investment advice that it deems necessary.
- 1.2.10 To employ, through a host authority, any professional advisor that the Joint Committee deems necessary to secure the proper performance of their duties.

## North Yorkshire County Council

### Pension Board

Minutes of the meeting of the Pension Board held on Thursday 20 July 2017 at County Hall, Northallerton commencing at 10.00 am.

#### Present:-

#### Members of the Board

David Portlock (Independent Chairman).

#### Employer Representatives:

Louise Branford-White (Hambleton District Council) and Phil MacDonald (Hull University)

#### Scheme Members:

Mandy Swithenbank (GMB) and Gordon Gresty.

#### In attendance:-

County Council Officers: Amanda Alderson, Phillippa Cockerill, Steve Loach and Jo Wade.

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

#### 93. Apologies and Welcome

Apologies were received from County Councillor Mike Jordan (NYCC), Councillor Ian Cuthbertson (City of York Council), Ben Drake (Unison) and Stella Smethurst (Unison).

The Chairman welcomed Phillippa Cockerill as the recently appointed Head of Pensions Administration. She gave a brief outline of her background and experience.

#### 94(a) Minutes

##### Resolved -

That the Minutes of the meeting held on 20 April 2017, having been printed and circulated, were taken as read and confirmed and signed by the Chairman as a correct record, subject to the following alterations:-

Minute No. 85 - Draft Minutes of the Pension Fund Committee meetings held on 23 February 2017 and Special Meeting on 31 March 2017 - sentence two - remove "stating that", to avoid repetition of this.

Minute No. 89 - LGPS Pooling - Update - paragraph three, sentence one - remove the word "been".

#### 94(b) Progress on Issues raised by the Board

It was noted, by the Chairman, that the majority of issues highlighted were agenda items for this meeting and would be discussed at the relevant point.

In relation to the review of employer discretions it was noted that further consideration of how this would progress would be undertaken during the work plan item on the agenda.

A Member noted that pooling was not included as an agenda item for this meeting and asked whether there would be an update. It was noted that the matter would be discussed during consideration of the Minutes of the Pension Fund Committee.

It was noted that, at this time, there had been no progress in relation to the appointment of Scheme Member representation, through a co-option process, to the Pool's Joint Committee.

**Resolved -**

That the report be noted.

**95. Declarations of Interest**

There were no declarations of interest submitted.

**96. Public Questions or Statements**

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

**97. Draft Annual Report**

Considered -

The draft Annual Report of the Pension Board to 31 March 2017. The Chairman stated that the report attempted to encapsulate the work of the Pension Board since its establishment in July 2015.

Members were requested to consider the details provided and submit comments and observations in relation to those.

The Chairman thanked Amanda Alderson (North Yorkshire Pension Fund) and Steve Loach (Legal and Democratic Services) for their assistance in producing the draft Annual Report.

Members raised the following issues and points in relation to the report:-

- ◆ It was considered appropriate that the budgetary figures for 2015/16 also be included by way of comparison to the 2016/17 figures. Officers stated that these would be provided.
- ◆ The format of the report was queried, however, it was clarified that the format was based upon other Pension Boards' Annual Reports, and advice from the Pension Fund's Independent Observer, and that the style could be determined by the Pension Board, as the owner of the report.
- ◆ A number of suggested amendments to the Appendices and the report were provided by Members including:-

- the removal of reference to travel costs being borne by employers within the main report
- reference to the conflicts of interest policy being reviewed annually being included
- updated copies of the training programme and the work plan be included, following their consideration later in this meeting.

**Resolved -**

- (i) That the amendments to the report and Appendices, as detailed, be undertaken.
- (ii) That, following the implementation of the amendments, the report be circulated to Members of the Board for final approval.
- (iii) That the finalised report be circulated to the Treasurer of the Pension Fund, the Chairman of the Pension Fund Committee and the County Council's Monitoring Officer, with a view to this being submitted to the Pension Fund Committee and County Council before being published on the appropriate websites.

**98. Minutes of the Pension Fund Committee meeting held on 25 May 2017 and a verbal update on the meeting held on 6 July 2017**

The Chairman provided highlights from the meetings and the following issues and points were raised:-

- ◆ A discussion was undertaken in relation to the Pension Fund Committee's previous suggestion that some investments would be put into less volatile funding categories to minimise the risk on the solvency of the Fund and it was asked, now that the Fund was over 100% funded, whether this would gather pace. It was noted, in response, that the Pension Fund Committee was currently undertaking an investment strategy review and this factor would be considered alongside others. The Chairman noted that some discussions had already taken place in relation to the direction of the investment strategy at meetings held on 6 and 7 July 2017.
- ◆ An update was provided in respect of the appointment and recruitment of non-Executive Directors to BCPP. It was noted that the position of Chairman was about to be filled and it was expected that the position of Chief Executive would be in place by mid-August 2017. It was stated that the Government had been advised that the Pool would not be operational until July 2018, which had been accepted, despite being outside 1 April 2018 deadline. It was noted that the other Pools throughout the country were in different positions regarding the appointment of personnel and their commencement dates. It was stated that both the Pension Fund Committee and the Pension Board would continue to monitor the establishment of BCPP.
- ◆ The Chairman outlined that the meeting on 6 July allowed the Pension Fund Committee to consider the draft Statement of Final Accounts and approve changes to governance documents. He noted that, ultimately, the County Council's Audit Committee approved the Final Accounts with the Pension Fund Committee having sight of these to forward any feedback they may have to Audit Committee.



- ◆ The Chairman noted that the Pension Fund Committee had agreed to develop a training policy, a breaches policy and a risk policy in relation to the operation of the Pension Fund. He suggested that a training policy may also be appropriate for the Pension Board. Members were asked to comment on the development of these policies. A Member considered that a risk policy would not enhance the process and did not consider that it was required, however, officers highlighted the need for the policy as the strategic document determining the risks and how they were managed.
- ◆ Issues around the production of Annual Benefits Statements were discussed and it was asked whether the statutory deadline would be met. In response it was noted that good progress is being made, however, some employer returns were still outstanding and the Benefits Statements would not be issued due to that. It was noted that, when the statutory deadline had passed, a discussion would be required as to whether the Pensions Regulator should be notified of a breach. This matter would be determined in due course.
- ◆ The Chairman acknowledged that the Communication Policy Statement made reference to the Pension Board's involvement. He noted that the policy stated the Pension Board Members had been provided with copies of the NYPF newsletter but he had not received a copy. In response it was stated that this was circulated annually and that Members of the Pension Board and Pension Fund Committee should receive copies of this.
- ◆ A Member suggested that he required information regarding pooling arrangements on a timelier basis to enable him to update the website and provide meaningful information to pensioners and deferred pensioners. He considered that, currently, this was not the case.
- ◆ The Chairman noted that the issue of applying sanctions to employer organisations when payments, or data, had not been provided appropriately had been discussed. Officers indicated that sanctions were only applied as a last resort, and every effort was made to work alongside the employers, to overcome the difficulties and ensure that requirements were met appropriately. It was noted that training and education processes were in place in terms of the supply of payments and data from employers and it was emphasised that every effort was made to maintain a working relationship between the Pension Fund Administration and employers. Members supported the approach undertaken, but emphasised the need to invoke sanctions on occasions, particularly where an employer had not been responsive on a number of occasions.
- ◆ It was noted that some of the data presented by employers was not of a suitable quality to enable Annual Benefit Statements to be produced, as details had not been corroborated effectively. The Pensions Administrations Team were addressing the situation and were working with employers to ensure that suitable processes were in place to verify the data provided. It was suggested that this could be a matter for the Pension Board to consider in terms of a work-stream project and further consideration would be given to this issue in respect of the work plan for the Pension Board.
- ◆ The Chairman highlighted the Investment Strategy Workshops being undertaken by the Pension Fund Committee and how the development of the strategy was seeking to reduce some of the risk around investments, with

details to be submitted to the meeting of the Pension Fund Committee in September. Appropriate options for disinvestment and less volatile investments were currently being sought through the Investment Strategy Workshops and these would be reflected in the subsequent Investment Strategy.

- ◆ In terms of rebalancing the Fund, issues around the specifics of how that would be undertaken were discussed and it was noted that officers were in a position to carry out these rebalancing exercises, without having to refer each matter to the Pension Fund Committee as they are to bring the Fund back in line with the approved Investment Strategy. These matters were brought to the attention of the Chairman and Treasurer of the Pension Fund Committee and reported to subsequent meetings where actions had been undertaken.

#### **Resolved -**

That the issues and points raised be noted and actions indicated be undertaken accordingly.

### **99. Internal Audit Reports**

#### **Considered -**

The report of Veritau Limited seeking approval for the planned programme of Internal Audit work to be undertaken in 2017/18, in so far as the Pension Board was concerned.

Ian Morton, Audit Manager, Veritau Limited, attended the meeting and outlined the audits planned for 2017/18 in terms of the North Yorkshire Pension Fund. He noted that the Investment audit was carried out retrospectively and involved reviewing information provided by Investment Managers, therefore, the audit covering the 2016/17 year was currently still in progress and would be reported to the Pension Board when completed. In view of that it had been decided that the 2017/18 Audit Plan would not include an investment audit, with this being undertaken at the beginning of the 2018/19 audit year. It had been decided to undertake a governance audit during 2017/18 which would review compliance against recent guidance and regulations and the Code of Practice issued by the Pensions Regulator.

Full details of the proposed audits were provided in an Appendix to the report, and these would focus on Pension Fund governance arrangements, Pension Fund income and Pension Fund expenditure.

Members discussed the report and the following issues and points were raised:-

- ◆ It was asked when the governance audit was likely to be completed. In response it was stated that the audit was expected to be undertaken reasonably quickly with a view to completing by September/October 2018, however, it was emphasised that the length of the audit depended on officers' availability and work pressures, as to when that would be completed.
- ◆ It was noted that the County Council's Audit Committee would agree the final Audit Plan, however, the details were provided to assist the Pension Board's consideration of how this was progressing.

**Resolved -**

That in so far as the Pension Board is concerned, the Pensions Fund Audit Plan for 2017/18 be agreed.

**100. Review of Risk Register**

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) providing Members with an opportunity to comment on the Pension Fund Risk Register.

It was noted that the Register highlighted two risks ranked as red, five as amber and three as green, with the assessment of the highest ranked risks primarily driven by the financial impact each could have if the risk occurred. One of the red risks related to LGPS pooling arrangements which was currently considered the key risk of the Pension Fund. It was noted that the Pension Fund solvency also remained a red risk, despite the funding level of 104%, 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, were based.

The latest version of the Risk Register, which was attached as an Appendix to the report, was taken to the Pension Fund Committee on 6 July 2017 where it was approved.

Members undertook a detailed discussion on the report and the following issues and points were raised:-

- ◆ With reference to the risk related to the pooling arrangements a Member asked how a comparison of the development of the arrangements could be undertaken unless the Pension Board was provided with reports relating to that development, including the costs. It was suggested that the reports were essential to ensure that a comparison of how progression was being made could be undertaken and to identify how initial details differed to the final implementation. Members agreed that a “base-line” was required so that the transition process could be monitored effectively. In respect of this it was noted that reports were submitted to the BCPP’s Joint Committee and it was suggested that these could also be submitted to the Pension Board to provide the information requested, enabling Members to monitor progress as required. Whilst agreeing that the information requested would be useful in setting a base-line for the development of the Pool and considering its progress thereon, Members were reminded to take care in ensuring that they were operating within the remit of the Pension Board.
- ◆ Members suggested that, periodically, the Treasurer for the Pension Fund (Corporate Director - Strategic Resources) should be invited to Pension Board meetings to assist with the consideration of the risks set out, to determine how these were being managed and to provide assistance with the management of these to the Board. It was noted that the majority of meetings of the Pension Board were attended by the relevant delegated officers, however, Members considered that it would be useful for the Treasurer of the Pension Fund to attend, maybe on an annual basis, to discuss issues that had arisen.

In respect of this it was suggested that reports from the BCPP Joint Committee would be required by Pension Board Members to enable them to establish a base-line and determine the progress being made, before the Treasurer was invited to discuss issues, to ensure that the debate could be fully informed. Members considered that it was appropriate to be provided with an opportunity to speak with the Treasurer on a regular basis to provide the challenge and assistance to the Pension Fund required of the Pension Board.

- ◆ It was asked whether risk assessments had been carried out in relation to cyber-attacks and whether mitigation measures were in place to guard against these. In response it was stated that a report was being developed in relation to this matter and it was emphasised that North Yorkshire Pension Fund was reasonably well protected against such attacks. It was noted that the majority of cyber-attacks were created through human error and a great deal of effort was being put into educating people to be more resilient against such attacks. It was also stated that appropriate contingency planning was undertaken to ensure that any cyber-attack could be dealt with as quickly as possible, allowing a return to normal working practices, and details of these were outlined in business continuity documents.

#### **Resolved -**

- (i) That Pension Board Members be provided with the background documents/information as detailed above, in relation to the risk around pooling;
- (ii) That the Treasurer of the Pension Fund be invited, periodically, to attend Pension Board meetings to discuss relevant issues, previously identified, with Members of the Board; and
- (iii) That the Risk Register continue to be reviewed on an annual/bi-annual basis, dependent upon the category of those risks following review and that any major updates in relation to risks be fed into the Pension Board via the Pension Fund Committee.

#### **101. Investment Strategy Statement**

##### **Considered -**

The report of the Assistant Chief Executive (Legal and Democratic Services) updating Pension Board Members on the progress made on the latest draft of the Investment Strategy Statement (ISS).

It was noted that the Investment Strategy Statement (ISS) was published in response to the LGPS (Investment and Management of Funds) Regulations 2016 and replaced the previous requirement to maintain a Statement of Investment Principles (SIP).

The ISS was a fluid document, with updates continuing to be taken through the Pension Fund Committee, the latest version having been submitted to 6 July 2017 meeting. This version included comments provided by the Pension Board at its meeting held on 20 April 2017.

The Pension Fund Committee approved the ISS subject to some minor wording amendments and the inclusion of an additional paragraph relating to the shareholders of BCPP.

### **Resolved -**

That the report be noted.

### **102. Training**

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) providing an update on Pension Board Member training.

Appendix 1 to the report provided details of training events and activities attended and undertaken by Pension Board Members and the following updates were provided in relation to that:-

- ◆ Details should be included in relation to the attendance of Pension Board Members at the employers' seminar on pooling, a seminar in relation to private debt and a seminar relating to the triennial valuation.
- ◆ Details of the Pension Regulators toolkit training modules, completed online by a number of Members, also required inclusion.
- ◆ It was noted that Pension Fund Committee meetings were included as training events as Pension Board Members were welcome to attend those and the main issues in relation to the work of the Pension Board were discussed at those meetings.

### **Resolved -**

That the training record be updated to reflect the training undertaken by Pension Board Members as indicated above.

### **103. Training Events - Feedback**

Phil MacDonald and David Portlock provided feedback from conferences/training events that they had recently attended as follows:-

#### Brave New World - LGPS Conference

Phil MacDonald provided a written report which had been circulated along with the papers and highlighted the following:-

- ◆ He considered that the conference had provided value for money in terms of the costs incurred for attendance.
- ◆ He noted that there had been a lot more representation from other Pension Funds (including Pension Fund Committee Members, Pension Fund officers and Pension Board Members) from various parts of the country, but suggested that having the conference at a more central location would enhance that attendance. He considered that it was beneficial to hear how other Pension Funds were moving forward with issues, such as pooling, and how they were responding to those.

- ◆ Funding level - the NYPF was now over 100% funded and, as discussed earlier in the meeting, consideration was being given to “locking in” some of the gains.
  - ◆ Ethical/responsible investment - what do Scheme members want and would they be prepared to risk investment returns for this - it was noted that the matter was recently raised at a Pension Fund Committee meeting, through a public question, and the response emphasised that the Pension Fund Committee had a duty to maximise the return on investments for Scheme members.
  - ◆ Asset pooling - details of how other Pools were evolving had been provided and it was noted that regular update reports were to be provided to the Pension Board, as discussed earlier in the meeting, in relation to BCPP.
- It was considered whether pooling arrangements would eventually evolve into one single LGPS Fund similar to the USS.
- ◆ Benefits Statements - many members were not getting their statements by the statutory deadline and it was wondered how this could be addressed.
  - ◆ Benchmarking - it was suggested that it would be a good idea to carry this out for the eight Asset Pools in terms of performance, set-up costs and investments. It was noted that the information in relation to this was available and it was expected that benchmarking would take place once the pools were up and running.
  - ◆ Procurement - it was noted that Pension Fund officers were continually negotiating with Fund Managers in terms of performance related fees to ensure that the best value for money as possible is provided.
  - ◆ Networking - the conference provided an important opportunity to network with other Pension Fund representatives from across the country.

#### Local Pension Boards Two Years On - CIPFA Conference

David Portlock circulated a report with the papers providing details of the issues raised at the conference. He highlighted the following:-

- ◆ Pensions Regulator - the Pensions Regulator had indicated that it would be using its enforcement powers much more robustly, with the key areas of focus for 2017/18 being governance, record keeping, internal controls and Member communications.
- ◆ DCLG - the current DCLG Team was relatively inexperienced in LGPS issues.
- ◆ Pension Ombudsman - there were relatively few complaints to the Ombudsman in relation to the Local Government Pension Scheme.
- ◆ Cyber security and the LGPS - issues around GDPR, which would be effective from May 2018 and would provide only 72 hours to report breaches, and the implications for third party processors, were discussed. It was noted that the 72 hours reporting time would include weekends. The need to

address compliance with these Regulations and how that would be addressed by NYPF were discussed.

- ◆ Scheme Advisory Board - costs transparency.
- ◆ Potential issues for Pension Board Work Plan 2017/18:
  - Data quality
  - Cyber-security
  - Governance for pooling
  - The Pension Regulator's priorities
  - Costs' transparency
  - Pension Board Member competency and skills
  - Pension Board succession planning.

**Resolved -**

That the reports and issues raised be noted.

**104. Work Plan**

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) providing details of the areas of planned work by the Pension Board.

It was noted that the Work Plan, attached at Appendix 1, required updating for inclusion in the Annual Report and Members were asked to comment on that.

Members were also asked to consider areas of work contained within the Plan which they could develop, going forward.

The following issues and points were highlighted:-

- ◆ A number of alterations to the existing Pension Board Work Plan, as attached at Appendix 1, were provided and noted.
- ◆ In relation to the review of the exercise of employer and administering authority discretion it was noted that Pension Fund officers were currently reviewing documents in relation to that and it was suggested that this should be completed before a detailed project was undertaken. An update on the progress of that review would be provided to the next meeting of the Board.
- ◆ Pooling arrangements and governance were seen as major issues of focus for the Pension Board, as had been the case for a number of previous meetings. It was noted that, as discussed earlier in the meeting, the Pension Board would be provided with base-line information in relation to the creation of the Pool to enable analysis of how that was progressing to take place.
- ◆ It was noted that the Pension Fund's Independent Professional Observer, Peter Scales, had provided his comments to the Pension Fund Committee in respect of governance arrangements.
- ◆ In line with the Work Plan, it was suggested that at the October meeting of the Board Members have preliminary discussions on the review of management,

administration and governance process and procedures and assisting with the development of improved customer services, with the aim of determining a way forward for undertaking detailed projects on those issues.

**Resolved -**

- (i) That the Work Plan be amended in line with the issues highlighted by Members.
- (ii) That Members come to the next meeting of the Board prepared to discuss how to take forward the various projects mentioned above.
- (iii) That at the next meeting of the Board a timetable be agreed for taking the various projects forward.

The meeting concluded at 12.40 pm.

SL/JR

DRAFT