ITEM 6

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

13 SEPTEMBER 2018

GOVERNANCE ARRANGEMENTS

Report of the Treasurer

1.0 PURPOSE OF REPORT

1.1 To review a range of governance documents and for the Committee to approve or note as appropriate:

- NYPF Business Plan
- Pensions Administration Strategy
- Employer Charging Policy
- NYPF Annual Report and Accounts

1.2 To update Members on progress made on the following governance documents:

- Admissions and Terminations policy
- Statement of Compliance with the UK Stewardship Code

1.3 To update Members on the annual governance review of the Fund undertaken by the Fund's Independent Professional Observer

2.0 BACKGROUND

2.1 At the 5 July 2018 meeting Members approved a suite of governance documents as part of the annual governance review of the Fund. To remind Members, it was explained in the meeting that there were some outstanding documents that would be brought to the September meeting for approval, these documents are as follows:

- NYPF Business Plan
- Pensions Administration Strategy
- Employer Charging Policy
- NYPF Annual Report and Accounts
- Admissions and Terminations Policy

2.2 The sections below cover each of these documents and the actions required from Members in turn.

3.0 NYPF BUSINESS PLAN

3.1 As part of its programme of improving the standards of governance across all pension schemes, the Pensions Regulator has recommended each scheme should have a business plan which sets out a clear purpose and strategy. This plan should be used to manage the scheme effectively and enable members to get good outcomes. Having a business plan will enable the Committee to plan ahead and improve their ability to comply with legal requirements.

3.2 The NYPF Draft Business Plan is attached as **Appendix 1**, Members are asked to approve this document. The document covers the objectives of the Fund and the key actions for 2018/19 to be undertaken in order to achieve these objectives.

3.2 This document will be updated annually and will be brought to the PFC for approval alongside the budget in future years to ensure objectives, key activities and the budget are aligned.

4.0 PENSIONS ADMINISTRATION STRATEGY AND EMPLOYER CHARGING POLICY

4.1 The Pensions Administration Strategy is attached as **Appendix 2.** This document has been amended to incorporate the Fund's wish to re-introduce charging employers for poor quality data and late submission of year end data files. Alongside this document an Employer Charging Policy has been created, attached as **Appendix 3,** which sets out the Fund's policy regarding charging employers. Members are asked to approve these documents.

5.0 NYPF ANNUAL REPORT AND ACCOUNTS

5.1 NYPF Annual Report 2017/18

5.1.1 The Pension Fund Annual Report 2017/18 is attached as **Appendix 4**. Members are asked to approve the content of the Report. The governance documents included in the report are all approved separately.

5.1.2 The Annual Report is audited by the Fund's external auditor, KPMG, who have advised informally that they will give an unqualified opinion on the Annual Report, subject to no material changes being made.

5.1.3 Following PFC approval, the Annual Report will go back to KPMG for their final opinion and will then be published on the NYPF website.

5.2 NYPF Final Accounts

5.2.1 The Draft Accounts were approved by PFC in the 5 July 2018 meeting. As the external audit had not been completed at the time of the meeting, it was agreed that any subsequent changes to the Accounts would be brought to PFC for noting, these changes are detailed in the table below:

Change	Note	Original figure (£000)	Final Figure (£000)	Variance (£000)	Comments
Change in treatment of prepayment of deficits	Fund Account, Net Asset statement, various notes	Non-investment creditor (29,691) Deficit contributions-20,971	Non-investment creditor-4,317 Deficit contributions-46,345	25,375 (25,375)	At the request of KPMG, the deficit paid in advance for 2018/19 and 2019/20 by a number of employers is no longer treated as a prepayment and has been included in the deficit contributions

					received for 2017/18.
Increase in 2017/18 management fees	11, fund account	(22,985)	(24,523)	1,538	This increase is due to further fee information being disclosed by Managers after the Draft Account deadline, as part of the drive to increase transparency on fees.
Reclassification of investment levels	16a	Level 1- 3,103,152 Level 2- 292,692 Level 3- 0	Level 1- 1,279,194 Level 2- 2,075,292 Level 3- 41,362	Level 1- (1,823,958) Level 2- 1,782,600 Level 3- 41,362	At the request of KPMG, the investment levels have been adjusted to reflect whether the investments are exchange traded
Amendment to change in market value of investments	14a, fund account	244,947	246,433	1,486	Change due to a review of the management expenses and private equity write off
Write off of private equity	Fund Account, Net Asset statement, various notes	55	0	(55)	Yorkshire and Humber Fund has now been valued at zero, so written off in the accounts
Change in AVC contribution figure	23	1,999	2,007	8	To correct an error in accounts
Addition of pooling paragraph to post balance sheet events	6	n/a	n/a	n/a	To acknowledge that the Fund has joined BCPP and that costs and transition of funds will occur from 2018/19

5.2.2 The NYCC Final Accounts, that include the Pension Fund Accounts, were approved by the Audit Committee at their meeting on 26 July 2018. These final Accounts have been included as an Appendix to the NYPF Annual Report 2017/18.

6.0 ADMISSIONS AND TERMINATIONS POLICY

6.1 The Admissions and Terminations Policy is in the process of being updated. This is a significant piece of work that includes the alignment of our policies, practices and admission agreements with the updated LGPS Regulations. This work is being undertaken in conjunction with the Fund’s Actuary and legal advisers. The updated draft policy will be brought to a future PFC meeting for Members to approve.

7.0 STATEMENT OF COMPLIANCE WITH UK STEWARDSHIP CODE

7.1 Following the approval of the amended version of the NYPF Statement of Compliance with the UK Stewardship Code in the July meeting, the document was re-submitted to the Financial Reporting Council (FRC) for assessment. To remind Members, statements assessed as Tier 1 are considered to provide a good quality and transparent description of the approach to stewardship and explanations of alternative approaches where necessary. Statements assessed as Tier 2 are considered insufficiently transparent or do not provide adequate explanations.

7.2 NYPF has now received a Tier 1 assessment from the FRC and the Statement will be published on both the NYPF and the FRC website.

8.0 FUND GOVERNANCE REVIEW- REPORT OF THE INDEPENDENT PROFESSIONAL OBSERVER

8.1 The Fund’s Independent Professional Observer, Peter Scales, has undertaken an annual governance review of the Fund; his report is attached as **Appendix 5**.

8.2 The Independent Professional Observer will attend the September meeting to discuss the governance of the Fund with Members; any feedback provided will be reflected in the governance documents where necessary.

9.0 NEXT STEPS

9.1 Following approval of the remaining documents, subject to any changes as a result of the review of the Independent Professional Observer, the final governance documents will be published on the NYPF website.

9.2 The Admissions and Terminations policy will be brought to the November meeting for approval.

10.0 RECOMMENDATIONS

Members are asked to:

10.1 Approve the following governance documents:

- NYPF Business Plan (Appendix 1)
- Pensions Administration Strategy (Appendix 2)
- Employer Charging Policy (Appendix 3)
- NYPF Annual Report (Appendix 4)

10.2 Note the changes made to the NYPF Statement of Accounts

10.3 Note progress made on the Admissions and Terminations Policy and the Statement of Compliance with the UK Stewardship Code

10.4 Note the content of the Annual Governance Review undertaken by the Independent Professional Observer (Appendix 5) and agree any changes required to the Governance Documents.

GARY FIELDING
Treasurer to North Yorkshire Pension Fund
NYCC
County Hall
Northallerton

3 September 2018

Appendix 1

North Yorkshire Pension Fund

Business Plan

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

Contents

1. Background

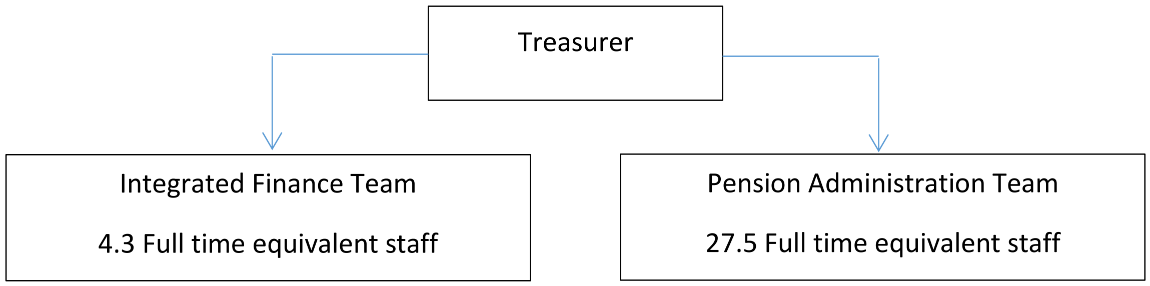
North Yorkshire County Council (NYCC) is the statutory administering authority for the North Yorkshire Pension Fund (NYPF), which is part of the Local Government Pension Scheme (LGPS). All aspects of the Fund's management and administration, including investment matters, are overseen by the Pension Fund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

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 day to day running of the NYPF is delegated to the Treasurer who is the Corporate Director – Strategic Resources of the NYCC and is responsible for implementing the decisions made by the PFC.

Supporting him is a team of staff split into two sections. The Pension 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.

Current structure:



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

The main systems utilised in the running of the NYPF are Oracle, a third party finance and accounting system provided by the Oracle Corporation, and Altair a third party pensions administration system provided by Aquila Heywood.

2. Introduction

As part of its programme of improving the standards of governance across all pension schemes the Pensions Regulator has recommended each scheme should have a business plan in place which sets out a clear purpose and strategy. This plan should be used to manage the scheme effectively and enable members to get good outcomes. Having a business plan will enable the Pension Fund Committee to plan ahead and improve their ability to comply with legal requirements.

This Plan will be reviewed annually and objectives and key actions revised accordingly.

3. Vision

To ensure sufficient assets are available to pay the right pension benefits at the right time.

4. Objectives

The objectives set out below will enable the Fund to achieve its long term vision to ensure sufficient assets are available to pay the right pension benefits at the right time.

We will:

1. Maximise investment returns
2. Manage Scheme funding
3. Provide excellent customer service
4. Ensure effective Fund governance

5. Key Actions

The following key actions have been identified:

Action	Resource
Effective and efficient member administration Website review Administration software review Business process re-engineering	Head of Pensions Administration
Improve Data Quality GMP Reconciliation Pensioner Reconciliation Employer interaction Create Data Improvement plan	Head of Pensions Administration
People Review of team structure Training Cross skilling Resilience Succession planning	Head of Pensions Administration
Excellent Customer Service Improved employer engagement Partnership working with employers	Head of Pensions Administration/ Senior Accountant
Effective Investment Strategy Review of Investment Strategy Fund Manager performance reviews	Pension Fund Committee
Pooling Transition plan Effective management of transition NYPF representation	Pension Fund Committee/ Treasurer/ Senior Accountant
Monitor Income Monitor monthly employer and member pension contributions Effective financial management	Senior Accountant
Effective Fund Governance Committee and Board skills evaluation Committee and Board training plan	Pension Fund Committee
Triennial Valuation Agree assumptions Review of scheme factors Data cleansing Employer engagement Review of strength of covenant	Head of Pensions Administration Senior Accountant

The following resources have been identified as key to ensuring delivery of the objectives identified:

a. Systems and technology which are fit for purpose
b. People
    i. Focussed on customers' needs
    ii. Highly skilled and knowledgeable
c. The right information and data
    i. Financial
    ii. Performance
    iii. Benchmarking
    iv. Membership data
d. Third party service providers
    i. Actuary
    ii. Legal Advisers
    iii. Custodian
    iv. Fund Managers
    v. Investment Consultants
    vi. Software provider

Appendix 2

North Yorkshire Pension Fund

Pensions Administration Strategy

April 2018

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

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Pensions Administration Strategy

1.0 Purpose of Strategy

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

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

2.0 Regulatory Background

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

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

- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
- The Local Government Pension Scheme Regulations 2013
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (and any amendments thereto)
- The Local Government Pension Scheme (Administration) Regulations 2007
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2007
- The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (and any amendments thereto)
- The Local Government Pension Scheme Regulations 1997 (and any amendments thereto)
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (and any amendments thereto)
- The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (and any amendments thereto)
- the Occupational Pension Schemes (Preservation of Benefit) Regulations 1991
- the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ("the
- Disclosure Regulations")
- the Pensions Act 1995
- the Pensions Act 2004
- the Pensions Act 2008
- the General Data Protection Regulation 2018
- the Finance Act 2004
- the Automatic Enrolment (Miscellaneous Amendment) Regulations 2013
- the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 including amendments to any of these Regulations

3.0 Review of the Strategy

This Strategy will be kept under review by the NYPF.

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

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

4.0 Performance Levels

Performance level agreements are set out in this document for both employers and the NYPF. These will be reviewed annually and employers will be consulted regarding any changes.

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

5.0 Responsibilities and Duties of the Employer

5.1 Contact Person

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

5.2 Authorised Signatories

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

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

5.3 Disclosure and Pensions Regulator Requirements

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

From time to time the NYPF's auditors may request member data. They may also request an employer site visit to carry out audits such as ensuring that correct and accurate pay calculations have been carried out. Employers are asked to co-operate with these requests.

In the event of the NYPF being fined by the Pensions Regulator, this fine will be passed on to the employer where that employer's actions caused the fine. Examples of this would be, failure to provide leaver details on time or failure to provide sufficient and accurate year end information leading to delays in issuing Annual Benefit Statements and Pensions Saving Statements.

5.4 Employee's Guide

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

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

The guide is available on the NYPF website at https://www.nypf.org.uk/newStarter/default.shtml where you can signpost new members to view and/or download it. Email and paper communications are also acceptable.

5.5 Member details – Employer performance levels

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

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

5.6 **Year-end information**

The employer (or their payroll contractor/agency for which the employer is responsible) shall provide the NYPF with final salary (where applicable) and Career Average Revalued Earnings (CARE) year-end information as at 31 March each year in a notified format (provided by the NYPF) no later than 30 April or the next working day. The employer will certify that the appropriate checks for accuracy and completeness have been carried out before submitting to the NYPF.

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

5.7 **Contribution deductions**

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

5.8 **Payment of contributions to the NYPF**

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

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

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

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

A penalty system will apply for employers failing to meet the deadlines above with a one month grace period for a 'first offence'. The penalty will be based on the number of days after the 19th of the month that the payment is received in the NYPF bank account. This will take the form of a fixed penalty (£100 for each month payment is delayed) plus a daily interest surcharge for the period the amount is outstanding. The interest rate to be used will be 1% above the bank base rate as prescribed in the Regulations. A fixed penalty of £100 will also apply where the monthly return is delayed or not provided as described above. For persistent breaches of this protocol, the employer will be reported to the Pensions Regulator.

In the event of the NYPF being fined by the Pensions Regulator, this fine will be passed on to the employer where that employer's actions caused the fine.

5.9 Additional Voluntary Contributions (AVCs)

The employer will pay additional voluntary contributions to the AVC Provider, Prudential, within one week of them being deducted. Under the Pensions Act 2004 the Pensions Regulator may be notified if contributions are not received before the 19th of the month following that in which they were deducted. The employer will submit the schedule of AVCs in an agreed format directly to Prudential ahead of the actual remittance.

In the event of the NYPF being fined by the Pensions Regulator, this fine will be passed on to the employer where that employer's actions caused the fine.

5.10 Discretionary Powers

It is a mandatory requirement that each employer is responsible for exercising the discretionary powers given to them by the Regulations. These Regulations extend to requiring the employer to publish its policy in respect of the key discretions as described by the Regulations to its employees. The Regulations also require that a copy of the relevant employer policies should be lodged with the NYPF. Any subsequent changes to the policies must be published and copied to the NYPF within one month of the change.

Employers will be responsible for responding to member complaints where a failure to maintain relevant employer policies results in a dispute case. This will include complying with the Internal Dispute Resolution procedure, where appropriate, and paying the associated fees for appointing a specified person.

5.11 Employer Decisions

Certain aspects of the Regulations require an employer decision. The employer is responsible for implementing such areas correctly, (e.g. deduction of contributions at the correct rate, notifying the employee when the rate changes and their right to appeal).

5.12 Independent Registered Medical Practitioner

The employer is responsible for determining and employing their own appropriately qualified independent registered medical practitioner (IRMP) and providing details of those practitioners to the NYPF (see also **paragraph 6.4**). See the Pensions Ombudsman Service newsletter for useful information on the role of the IRMP.

5.13 Employer responsibility for information provided to the NYPF

The NYPF is not responsible for verifying the accuracy of any information provided by the employer (including year end data) for the purpose of calculating benefits under the provisions of the LGPS and the Discretionary Payments Regulations. The employer is solely responsible for ensuring that information has been validated and is correct. Failure to provide accurate and up to date information will result in delays in carrying out pensions administration processes affecting individual scheme members, including payment of pension benefits.

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

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

5.14 **General Data Protection Regulation**

Under the General Data Protection Regulation (GDPR), the employer will protect from improper disclosure any information about a member contained (where applicable) on any item sent from the NYPF. It will also only use information supplied or made available by the NYPF for the operation of the LGPS. Any data the employer shares with the NYPF must be adequately protected in line with the requirements of the GDPR.

5.15 **Internal Dispute Resolution Procedure**

The employer must identify a ‘specified person’ for any instances where an Internal Dispute Resolution Procedure (IDRP) application is submitted against the employer and meet the associated costs. The NYPF has an independent specified person who is available for employers to refer cases to.

5.16 **Fines imposed on NYPF**

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

5.17 **Charges to the employer**

The NYPF will under certain circumstances consider giving written notice to employers under regulation 70 on account of the employer’s unsatisfactory performance in carrying out its scheme functions when measured against levels of performance established under **paragraph 5.5** above. The written notice may include charges imposed by the NYPF for chasing employers for outstanding information as detailed in the NYPF Charging Policy.

6.0 Responsibilities and Duties of the NYPF

6.1 **Regulatory Issues**

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

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

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

6.2 **NYPF Performance Levels**

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

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

6.3 Support to Employers

The NYPF will support employers in running the LGPS by:

- providing information, advice and assistance on the scheme and its administration
- distributing regular technical information
- arranging North Yorkshire Pension Fund Officers Group (NYPFOG) meetings/training sessions as required
- delivering adhoc training sessions
- attending pre-retirement seminars
- maintaining an up to date and comprehensive website

See the Communications Policy for full details.

6.4 Independent Registered Medical Practitioner

The NYPF will verify that the individuals nominated by the employer (in accordance with **paragraph 5.12**) as independent registered medical practitioners are appropriately qualified to deal with ill health retirement cases.

6.5 Services to Members

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

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

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

6.6 Multiple Language Literature

The process for providing multiple language literature has been established and all documents have been amended to include reference to how to obtain an alternative version.

6.7 Data Protection Act 2018

Under the Data Protection Act 2018, the NYPF will protect from improper disclosure any information held about a member. Information held will only be used by the NYPF for the operation of the LGPS. Any data shared by the NYPF will be adequately protected in line with the requirements of the act.

6.8 Internal Dispute Resolution

The NYPF has identified a ‘specified person’ for any Internal Dispute Resolution (IDRP) application that is submitted against the Administering Authority.

7.0 Contribution Rates and Administration Costs

The members’ contribution rates are fixed within bands by the Regulations. The NYPF will notify employers of these rates each year.

Employers’ contribution rates are determined by a triennial valuation process. Employers are required to pay contributions to secure the solvency of their portion of the Fund and meet their liabilities over an agreed term.

The NYPF is valued every 3 years by the Fund actuary. The actuary balances the assets and liabilities in respect of each employer and assesses the contribution rate and, where applicable, the deficit amount for each employer. Employer contribution rates and, where applicable, the deficit amounts apply for 3 years. Some admission agreements may determine that reassessment should take place on a more frequent basis.

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

If the NYPF undertakes work specifically on behalf of the employer, the employer will be charged directly for the cost of that work as detailed in the NYPF Charging Policy.

8.0 Communications

In accordance with the Fund's Communications Policy, the NYPF will work with employers to communicate relevant information to members.

9.0 Notifying Employers of a Change in Policy

The NYPF maintains a list of key contacts at each employer, this Strategy document will be shared with the key contacts each time it is updated.

North Yorkshire Pension Fund

Employer Charging Policy

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

Contents

1.0 Introduction

The LGPS regulations provide pension funds with the ability to recover from an employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that employer.

This document sets out the policy for charging employers.

2.0 Approach to Managing Performance

Ensuring compliance with the LGPS regulations is the responsibility of the Fund and employers including where the payroll service is outsourced.

The Fund and employers will ensure that all functions and tasks are carried out to the agreed quality standards. The Fund will monitor, measure and report on both the Fund's and employers' compliance with the agreed service standards as detailed in the Pensions Administration Strategy (PAS).

The Fund will review performance against the PAS on an ongoing basis and will liaise with employers in relation to any concerns. The Fund monitors its own performance against internal key performance indicators and reports to the Pension Fund Committee (PFC) on a quarterly basis. Employers performance will be measured against the standards set out in the PAS and will be reported to the PFC. The Fund also monitors and reports on data quality in line with the Pension Regulator's Code of Practice 14.

Where persistent and ongoing issues occur and no improvement is demonstrated by the employer, and/or no willingness is shown by the employer to resolve the identified issues further action will be taken as detailed in this policy.

3.0 Charging Policy

The LGPS regulations enable pension funds to recover any additional costs associated with the administration of the scheme incurred as a result of poor performance by an employer. The Fund will offer support and guidance prior to any charges being levied. The Fund and the employer will be expected to work together as follows:

- The Fund will contact the employer to explain the areas of non-compliance. An action plan and timescale will be agreed with the employer and the Fund will offer support and training.
- Where no improvement has been demonstrated within the agreed timescale, or there has been no response to communications, the Fund will request a meeting with the employer.
- If the employer is unwilling to attend a meeting or the issues have not been resolved, the Fund will issue a formal written notice setting out the following:
    - the areas of non-compliance
    - the steps required to resolve those areas; and
    - notice that the additional costs will start to be reclaimed

Where additional costs are to be recovered by the Fund, written notice will be provided stating:

- the reasons that the employer's poor performance contributed to the additional cost;
- the amount of the additional cost incurred;
- the basis on how the additional cost was calculated; and
- the provisions of the administration strategy relevant to the decision to give notice.

It is the Fund's policy to recover additional costs incurred in the administration of the scheme as a direct result of the poor performance of any employer (including the administering authority). This is to ensure that other employers do not incur higher administration costs as a result of an individual employer's poor performance.

A monthly invoice will be issued to the employer detailing any additional costs, taking account of time and resources in resolving the issues, in accordance with the charging scale set out in this policy. A report will be presented to the quarterly PFC meeting detailing charges levied against employers and outstanding payments.

If poor performance continues which impacts the Fund's ability to perform its statutory functions, or the employer is not taking steps to improve its performance, the Fund will report the employer to The Pensions Regulator.

If an employer fails to pay any amount due to the Fund (other than monthly contributions) within 30 days, interest for late payment will be charged.

4.0 Charging Scales

Item	Charge
Starter information	
Chase for missing information where one request has already been made	£5.00 per record, per chase
Chase for missing information or incorrect information to be corrected where one request has already been made	£5.00 per record, per chase
Employer estimate (Estform1)	
Chase for missing information or incorrect information to be corrected where one request has already been made	£5.00 per record, per chase
ADNOT (Advanced Notification of Retirement)	
Chase for missing form where one request has already been made	£5.00 per record, per chase
Chase for missing information or incorrect information to be corrected where one request has already been made	£5.00 per record, per chase
Death in service	
Chase for missing SU5 leaver form where one request has already been made	£10.00 per record, per chase
Chase for missing information or incorrect information to be corrected where one request has already been made	£5.00 per record, per chase
SU5 leaver form	
Chase for missing form where one request has already been made	£10.00 per record, per chase
Chase for missing information or incorrect information to be corrected where one request has already been made	£5.00 per record, per chase
Employer Authorisation (ill health and redundancy/efficiency)	
Request for missing employer authorisation	£10.00 per record, per chase
Request for missing cost codes (NYCC only)	£10.00 per record, per chase

Item	Charge
Data Hours information: chase for missing information (final salary) where one request has already been made Best years pay information: chase for missing information where one request has already been made	 £5.00 per record, per chase £5.00 per record, per chase
Year End Failure to submit year end file by 30 April (charged by the number of pensionable members held on the NYPF database) 1 – 99 100 – 999 1000 – 1999 2000 – 4999 5000 – 9999 1000 + Incorrect file formatting Missing or incorrect data Reason for pay changes outside of tolerances not given Missing starter and leaver information	 *The following charges will apply for each full month the file is delayed beyond 30 April *£50.00 per file *£100.00 per file *£200.00 per file *£300.00 per file *£400.00 per file *£500.00 per file **Subsequent chasers will be charged at £2.50 per chase, per record **£5.00 per record **£5.00 per record **£5.00 per record **£5.00 per record
If an employer annual return is received by 30 April and the return is accepted, no charge will apply. If the annual return is received by 30 April and the return is rejected but subsequently re-submitted and accepted within two weeks, no charge will apply.	
Monthly contributions Charge for late payment Charge for late submission of supporting documentation	 *The following charges will apply for each full month the file is delayed beyond it’s due date *£100 per file plus a daily interest surcharge for the period the payment is outstanding of 1% above the bank base rate *£100 per file
Accounting IAS19/FRS102 valuations	Professional fees recharged. Cost will be notified prior to work starting
Actuarial & legal advice Actuarial & legal advice for admission bodies and academy conversions	Professional fees recharged. Cost will be notified prior to work starting
Technical Advice Ad hoc technical advice, (where re-charging is deemed appropriate because the advice is not of general benefit to the Fund overall)	Professional fees recharged. Cost will be notified prior to work starting

Appendix 4

Pensions
NORTH YORKSHIRE

North Yorkshire Pension Fund

Annual Report and Accounts 2017/18

North Yorkshire County Council

Contents

Part 1 - Management and Financial Performance

1.1 Introduction

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

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

The day to day running of the Fund is delegated to the Treasurer who is the Corporate Director - Strategic Resources of the Council and is responsible for implementing the decisions made by the PFC. Supporting him is a team of staff split into two sections. The Pension 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 2018 was as follows:

Members	Position	Voting Rights
John Weighell (Chairman)	Councillor, NYCC	Yes
Helen Swiers (Vice-Chairman)	Councillor, NYCC	Yes
Mike Chambers MBE	Councillor, NYCC	Yes
John Blackie	Councillor, NYCC	Yes
Clifford Lunn	Councillor, NYCC	Yes
Patrick Mulligan	Councillor, NYCC	Yes
Andy Solloway	Councillor, NYCC	Yes
Angus Thompson	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 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
AVC Provider	Prudential

1.4 Risk Management

Risk management is the process by which the Fund identifies and addresses the risks associated with its activities. Risk management is a key part of the North Yorkshire Pension Fund's governance arrangements, and the 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) 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 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 Pensions 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

In the July 2015 Budget, the Chancellor of the Exchequer announced the Government's intention to work with the 89 administering authorities in the LGPS to ensure that they pool investments to achieve improved efficiency and significantly reduce costs, and to promote increased infrastructure investments by the LGPS within the UK, while maintaining overall investment performance.

On 15 July 2016 the Fund and eleven other LGPS Funds sent a proposal to the Government describing in detail how investment pooling arrangements could work. This proposal can be found here https://www.nypf.org.uk/nypf/Investment%20Pooling.shtml. This followed a summary proposal published on 19 February 2016.

During 2017/18, the Border to Coast Pensions Partnership (Border to Coast) was established to lead the pooling of investment assets across 12 LGPS Funds from the North to the South of England; this was signed up to by NYPF. The Administering Authorities of the LGPS funds that are participating in the Border to Coast pool, and are therefore its intended investors, are a combination of "like-minded" UK-based local government Unitary Authorities, Non-Metropolitan County Councils and Metropolitan District Councils. These are listed in the table below:

Administering Authority	Local Government Pension Fund
Bedford Borough Council	Bedfordshire Pension Fund
Cumbria County Council	Cumbria Pension Fund
Durham County Council	Durham Pension Fund
The East Riding of Yorkshire Council	East Riding Pension Fund
Lincolnshire County Council	Lincolnshire Pension Fund
North Yorkshire County Council	North Yorkshire Pension Fund
Northumberland County Council	Northumberland Pension Fund
South Yorkshire Pensions Authority	South Yorkshire Pension Fund
Surrey County Council	Surrey Pension Fund
Middlesbrough Council	Teesside Pension Fund
The Borough Council of South Tyneside	Tyne and Wear Pension Fund
Warwickshire County Council	Warwickshire Pension Fund

During the financial year 2018/19 the phased transition of investment assets from the Fund to Border to Coast Pension Partnership will begin.

Part 2 - Scheme Administration

2.1 Administering Authority Arrangements

The Fund'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 acting as the main point of contact with the Fund's managers, advisers and auditors.

2.2 Disputes Process

The 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 at https://www.nypf.org.uk/formsandguides/publications.shtml with details of the procedure and the form to be completed.

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 2017/18 eight cases were received via the IDRP process. Of these only two were referred back to the employers concerned to obtain further information. This confirms that regulatory requirements have been followed and the appropriate actions have been taken.

2.3 Pensions Administration

The NYPF covers the largest geographical area in England and Wales and the varied methods of communication utilised aim to tackle the challenges when communicating with both Scheme members and employers. Continued support has been provided for employers to ensure they are confident in carrying out their obligations under the Scheme. Face to face bespoke training has been provided and employers are encouraged 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 continues to be a significant growth in scheme employers converting to Academies. A dedicated NYPF contact continues to provide 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 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 contact details and perform calculations. This facility has also been used to allow electronic communication with members for the retirement and estimates processes. As at 31 March 2018 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 2017/18.

2.6 NYPF Website

All essential information and guides are held on the website at 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's guidelines on data collection and security have been applied by the Fund and validation checks are carried out across all areas of activity. Periodic checks are carried out across the database continually 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 Revalued Earnings (CARE) Scheme as NYPF cannot validate CARE pay provided by employers. Support is sought where appropriate from the Internal Audit Service in order to encourage 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 2016 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 Investment Strategy Statement (see Part 6).

(b) Investment Management arrangements

As at 31 March 2018 the following investment management arrangements were in place:

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

The agreed asset class structure for the investment portfolio as at 31 March 2018 was as follows:

	Minimum %	Maximum %
Equities	40	65
Alternatives	20	35
Fixed Income	15	30

(c) Custody of Investments

BNY Mellon Asset Servicing is the custodian for the Fund’s assets. There is one exception, being:

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

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

3.2 Performance

(a) Fund and Manager Performance

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

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

Performance for the year was +8.4% compared to the benchmark return of +3.4%.

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

Periodic Performance	1 Year	5 Years (p.a.)
North Yorkshire Pension Fund	8.4%	12.0%
Benchmark	3.4%	9.0%
Performance against benchmark	+5.0%	+3.0%

The performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2018 compared with their defined benchmarks is shown in the following table:

Fund Manager	Share of Fund as at 31 March 2018	Fund Performance	Customised Benchmark	+/-
	%	%	%	%
Baillie Gifford Life Ltd - Global Alpha	19.8	13.2	2.9	+10.3
Baillie Gifford Life Ltd - LTGG	14.3	26.3	2.9	+23.4
Fidelity International	9.7	3.9	3.5	+0.4
Veritas	4.6	-2.1	2.9	-5.0
Dodge & Cox	4.5	-2.1	2.9	-5.0
Standard Life Investments - Equities	10.2	8.4	6.1	+2.3
M&G Investment Management Ltd	17.6	1.7	1.4	+0.3
Hermes Investment Management Ltd	1.1	11.5	10.5	+1.0
Legal & General	2.0	8.2	10.0	-1.8
Threadneedle	5.2	10.3	10.0	+0.3
Standard Life (GARS)	5.2	0.9	0.3	+0.6
Newton Investments (RR)	4.1	-2.2	0.3	-2.5
Bluebay	0.2	7.3	8.3	-1.0
Permira	1.0	13.3	6.0	+7.3
Internally Managed Cash (and net debtors)	0.5	-	-	-
Total Fund	**100.0**	**8.4**	**3.4**	**+5.0**

(b) Analysis of Accounts

The Statement of Accounts for the year 2017/18 is shown at Appendix A.

The value of the Fund's assets at 31 March 2017 was £3,036m, and this increased by £293m during the year to give a value of £3,329m at 31 March 2018.

Analysis of Fund Account over three years to 2017/18

	2017/18	2016/17	2015/16
	£000	£000	£000
Net additions/(withdrawals) from dealings with members	47,645	23,205	15,840
Net investment return	(1,349)	3,843	8,705
Change in market value of investments	246,433	590,955	(6,581)
Net increase/(decrease) in the Fund	292,730	618,003	17,964

Analysis of Net Asset Statement over three years to 2017/18

	2017/18	2016/17	2015/16
	£000	£000	£000
Fixed Interest Securities	626,598	422,864	341,598
Equities	592,014	587,799	488,055
Pooled Funds	1,839,822	1,742,033	1,391,947
Pooled Property	276,831	252,966	176,463
Private Equity	0	55	82
Cash Deposits	13,887	10,123	8,339
Other	(37,975)	4,382	2,813
Total Investment Assets	**3,311,177**	**3,020,222**	**2,409,297**
Current Assets and Current Liabilities	**17,389**	**15,614**	**8,536**
Net Assets of the Fund	**3,328,566**	**3,035,356**	**2,417,833**

(c) Accounting and Cash Flow

Prior to the start of the 2017/18 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 2017/18 forecast a net cash surplus of £38.0m. The actual surplus for the year was £37.8m, resulting in an overall cash flow of £0.2m below expectations

	Budget 2017/18 £m	Actual Income/Expenditure £m	Variance £m
Expenditure			
Benefits	106.5	105.6	-0.9
Administration	2.2	1.9	-0.3
Investment Expenses	7.6	12.0	4.4
Total Expenditure	**116.3**	**119.5**	**3.2**
Income			
Employer and Employee contributions	150.5	151.2	0.7
Transfers	2.5	4.8	2.3
Other Income	1.3	1.3	0.0
Total Income	**154.3**	**157.3**	**3.0**
Net Surplus	**38.0**	**37.8**	**-0.2**

The main reasons for the variances were:

- Investment expenses - due to high performance on global equities in particular over the period
- Transfers - the budget is largely based on past experience as transfer payments/ receipts cannot be accurately forecast.

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

Part 4 - Pension Administration Activity

The number of staff (in FTE terms) at the Council involved in Pension Administration was 24.80.

(a) Key Performance Indicators

The Local Government Pensions Committee has defined a range of performance indicators through which Funds can be compared. NYPF's performance in these areas for the year to 31 March 2018 is shown here:

Performance Indicator	LGPC Target	Achieved (%)
Letter detailing transfer in quote	10 days	96.17
Letter detailing transfer out quote	10 days	94.29
Process and pay refund	5 days	97.53
Letter notifying estimate of retirement benefits	10 days	96.37
Letter notifying actual retirement benefits	5 days	59.45
Process and pay lump sum retirement grant	5 days	69.45
Initial letter acknowledging death of active/deferred/pensioner member	5 days	60.30
Letter notifying amount of dependant's benefits	5 days	60.30
Calculate and notify deferred benefits	10 days	80.90

(b) Benefit Calculation Activity

The number of cases processed during the year requiring benefit calculations is shown here:

Task	Number
Retirements	3720
Transfers In	344
Refunds	1859
Frozen Refunds	824
Preserved Benefits	3697
AVCs/ARCs	1
Divorce cases	206
Deaths in Service	37
Deaths of Pensioners	577

(c) Administration

The total numbers of joiners and leavers during 2017/18 were:

Joining	8093
Retiring	1375
Deaths	654
Other Leavers	3276

The performance and activity reflect the efforts the Pension Administration team goes to in providing a first class service to the Fund membership. NYPF continues to encourage all stakeholders to utilise technology effectively in all communications. Examples of this over 2017/18 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 and Prudential. Information regarding financial planning and lifestyle adjustments were provided
- Develop relationships with new employers to support them with the requirements of the LGPS. There continues to be significant growth in scheme employers largely in respect of schools converting to Academies
- Offering face to face training and support for all 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 Scheme 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 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018
Current contributors	31,501	35,056	31,748	33,559	33,110
Deferred pensions	29,490	30,591	32,079	33,147	35,799
Pensioners receiving benefits	17,668	18,444	19,793	20,441	21,462

5.2 Contributions

The Fund is financed by contributions from both members 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 Investment Strategy Statement (see Part 6).

The total contributions received for 2017/18 on an accruals basis were £150.6m, and NYCC being the main employer in the Fund contributed £71.5m. Employer contributions are set every three years by the Actuary as part of the Triennial Valuation. Details of the employer contribution rates can be seen in the latest Valuation Report by following the link below:
www.nypf.org.uk/Documents/NorthYorkshirePensionFund-ActuarialValuationasat31March2016.pdf

5.3 Employer Analysis

At 31 March 2018 there were 157 contributing employer organisations within NYPF including the County Council. Full details of all employers can be found in the Statement of Accounts (see Part 6).
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	92	13	105
Admitted Body	46	35	81
Total	138	48	186

5.4 Member Rates

For member 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 2017 as follows:

Band	Range	Contribution rate
1	£0 to £13,700	5.5%
2	£13,701 to £21,400	5.8%
3	£21,401 to £34,700	6.5%
4	£34,701 to £43,900	6.8%
5	£43,901 to £61,300	8.5%
6	£61,301 to £86,800	9.9%
7	£86,801 to £102,200	10.5%
8	£102,201 to £153,300	11.4%
9	Over £153,301 or more	12.5%

The employer has the discretion to decide how often the contribution rate is changed if the pensionable pay of the member changes. This will usually be once a year, or where there are contractual changes to a member'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 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 paid. 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 NYPF website at 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 is 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. However, members do have the option to convert an amount of pension to a lump sum.

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 between 1 April 2008 and 31 March 2014.

Pension (Ill Health)

An ill health pension is based on the full time equivalent pensionable pay received in the last year of service and a split of the 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 it is unlikely that the member will be capable of gainful employment before Normal Pension Age (NPA), LGPS service is enhanced by 100% of the remaining potential pension to NPA. 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 NPA.

Second Tier:

If it is unlikely that the member will be capable of gainful employment within 3 years of leaving but is likely to be capable of undertaking gainful employment before reaching NPA, LGPS service is enhanced by 25% of the remaining potential pension to NPA.

Third Tier:

If it is likely that the member will be capable of undertaking some gainful employment within 3 years of leaving the member 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 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

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, the lump sum death grant will be the greater of 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.

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.

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 eligible cohabiting partners pensions

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 the member paid into the LGPS on or after 1 April 2008 and subject to certain qualifying conditions being met.

The pension available to a cohabiting partner is based on post April 1988 membership only (unless the member elected to pay additional contributions to make any pre April 1988 membership count).

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, civil partner’s or cohabiting partner's pension depending on the number of eligible children and whether or not a spouse’s, civil partner’s or cohabiting 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 the Prudential on 0800 032 6674.

Part 6 - Governance Documentation

The main governance documentation is as follows:

- Investment Strategy Statement https://www.nypf.org.uk/Documents/InvestmentStrategyStatement_June2018.pdf
- Governance Compliance Statement https://www.nypf.org.uk/Documents/GovernanceComplianceStatement_v1.1June18.pdf
- Funding Strategy Statement https://www.nypf.org.uk/Documents/GovernanceComplianceStatement_v1.1June18.pdf
- Communications Policy https://www.nypf.org.uk/Documents/Comms%20Policy_v1%2012.6.18.pdf
- Pension Administration Strategy www.nypf.org.uk/nypf/policiesandstrategies.shtml

All of these documents can be found on the NYPF website at https://www.nypf.org.uk/nypf/policiesandstrategies.shtml

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

(a) Investment Strategy Statement

Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations) requires administering authorities to formulate, publish and maintain an Investment Strategy Statement (ISS).

The ISS must include:

- A requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority's approach to risk, including the ways in which risks are to be measured and managed;
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

(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 58 of the LGPS Regulations 2013 (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 as possible
- take a prudent longer-term view of funding those liabilities

In addition to this, the Funding Strategy Statement covers:

- responsibilities of the key parties
- solvency issues and target funding levels
- link to Investment Strategy set out in the Statement of Investment Principles
- identification of risks and counter measures
- method and assumptions and results of the 2016 Actuarial Valuation

(d) Communications Policy

This document 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) Pensions 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 scheme are fully equipped with the knowledge and skills to discharge their duties and responsibilities. The PFC also seeks to ensure that those Members and officers are both capable and experienced by making available the training necessary for them to acquire and maintain the appropriate level of expertise, knowledge and skills.

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

7.2. Training for Pension Fund Committee Members and Officers

(i) Internally Provided

Three Investment Strategy Workshops and new Member training sessions 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 previously, 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 2017/18 were:

Event	Place	Date
PLSA Local Authority Conference	Gloucestershire	15-17th May 2017
BCPP New Member Seminar	York	11/12th September 2017
PLSA Annual Conference	Manchester	18-20th October 2017
LAPFF Conference	Bournemouth	6-8th December 2017
NAPF Investment Conference	Edinburgh	7-9th March 2018

Details of the training undertaken by Members is recorded and reported at each PFC meeting. The latest report can be found by looking in the Pensions Administration Report in the link below: http://democracy.northyorks.gov.uk/committees.aspx?commid=11&meetid=3797

Part 8 - Glossary and Contact Details

Active member:
Current employee who is contributing to a pension scheme.

Actuary:
An independent professional who advises the Council on the financial position of the Fund.

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

Additional Voluntary Contributions (AVC):
An option available to active 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 members that employers pay as a contribution towards the members' 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 LGPS 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 provide free, independent and impartial information and guidance about pensions including workplace, personal and stakeholder schemes as well as the State Pension.

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: **01609 536335**
Email: pensions@northyorks.gov.uk
Website: www.nypf.org.uk

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

Telephone: The Pensions Helpline: **0800 011 3797**
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 2018 and its income and expenditure for the financial year then ended.

Gary Fielding
Treasurer
North Yorkshire Pension Fund

North Yorkshire Pension Fund
Fund Account for the year ended 31 March 2018

2016/17		2017/18	
£000	CONTRIBUTIONS AND BENEFITS	£000	£000
	Contributions		
58,793	Employers - Normal	74,612	
38,953	- Deficit	46,345	
3,091	- Early Retirement Costs Recharged	2,738	
26,226	Employees - Normal	26,692	
187	- Additional Voluntary	163	
127,250	**Total Contributions Receivable (Note 7)**		150,551
11,959	**Transfers In (Note 8)**		13,782
	Less		
	Benefits		
(76,846)	Pensions	(80,592)	
(23,693)	Commutation and Lump Sum Retirement Benefits	(21,912)	
(3,664)	Lump Sums Death Benefits	(2,615)	
(104,203)	**Total Benefits Payable (Note 9)**		(105,119)
	Leavers		
(267)	Refunds to Members Leaving Service	(423)	
0	Payments for Members Joining State Scheme	(92)	
(9,280)	Transfers Out	(8,957)	
(9,547)	**Total Payments on Account of Leavers (Note 10)**		(9,472)
(2,255)	**Management Expenses (Note 11)**		(2,097)
23,205	**Net Additions From Dealings With Members**		47,645
	RETURNS ON INVESTMENTS		
18,330	Investment Income (Note 12)		23,545
(256)	Taxation (Note 13)		(371)
(14,231)	Investment Management Cost (Note 11)		(24,523)
590,955	Change in market value of investments (Note 14a)		246,433
594,798	**Net Returns On Investments**		245,084
618,003	**Net Increase in the Fund During the Year**		292,730
2,417,833	**Opening Net Assets of the Fund**		3,035,836
3,035,836	**Closing Net Assets of the Fund**		3,328,566

North Yorkshire Pension Fund
Net Assets Statement

31 March 2017		31 March 2018
£000	INVESTMENT ASSETS (Notes 15 & 16)	£000
422,864	Fixed Interest Securities	626,598
587,799	Equities	592,013
1,742,033	Pooled Investments	1,839,822
252,966	Pooled Property Investments	276,831
55	Private Equity	0
3,005,717		3,335,265
10,123	Cash Deposits	13,887
6,234	Investment Debtors	24,990
3,022,074	**TOTAL INVESTMENT ASSETS**	3,374,142
	INVESTMENT LIABILITIES (Notes 14 & 15)	
(182)	Derivative Contracts - Forward Currency Contracts	0
(1,670)	Investment Creditors	(62,965)
(1,852)	**TOTAL INVESTMENT LIABILITIES**	(62,965)
3,020,222	**NET INVESTMENT ASSETS**	3,311,177
	CURRENT ASSETS	
7,878	Contributions due from employers	8,470
797	Other Non-Investment Debtors	765
8,683	Cash	12,471
17,358	**TOTAL CURRENT ASSETS**	21,706
	CURRENT LIABILITIES	
(1,744)	Non-investment creditors	(4,317)
(1,744)	**TOTAL CURRENT LIABILITIES**	(4,317)
3,035,836	**TOTAL NET ASSETS (Note 17)**	3,328,566

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 2018

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 2017/18 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 2018 there were 157 contributing employer organisations within NYPF including the County Council itself, and over 90,000 individual members, as detailed opposite.

105 Scheduled Bodies including 61 Academies	
Ainsty 2008 Internal Drainage Board	Align Property Services
Askham Bryan College	Chief Constable NYP
City of York Council	Craven College
Craven District Council	Easingwold Town Council
Filey Town Council	Foss 2008 Internal Drainage Board
Fulford Parish Council	Glusburn Parish Council
Great Ayton Parish Council	Hambleton District Council
Harrogate Borough Council	Haxby Town Council
Hunmanby Parish Council	Knaresborough Town Council
Malton Town Council	North York Moors National Park
North Yorkshire County Council	North Yorkshire Fire and Rescue
North Yorkshire Police and Crime Comissioner	Northallerton & Romanby JBB
Northallerton Town Council	Norton on Derwent Town Council
Pickering Town Council	Richmond Town Council
Richmondshire District Council	Ripon City Council
Ryedale District Council	Scarborough Borough Council
Scarborough Sixth Form College	Selby College
Selby District Council	Selby Town Council
Skipton Town Council	Sutton in Craven Parish Council
Tadcaster Town Council	Thornton (Vale of Pickering) IDB
Whitby Town Council	York Arts Education
York College	Yorkshire Dales National Park

Academy Trusts	
Arete Learning Trust - Stokesley Prim Acad	Bishop Wheeler Catholic Academy Trust
Arete Learning Trust - Richmond School	Craven Educational Trust
Ebor A.T. - Brotherton & Byram CP	Dales Academies Trust
Ebor A.T. - Camblesforth CP	Elevate MAT
Ebor A.T. - Filey Academy	Enquire Learning Trust - East Whitby Primary
Ebor A.T. - Filey COE Nursery and Infants	Enquire Learning Trust - Roseberry Primary
Ebor A.T. - Haxby Road	Enquire Learning Trust - Stokesley CP School
Ebor A.T. - Park Grove	Great Smeaton Academy Primary School
Ebor A.T. - Robert Wilkinson	Hope Learning Trust - Barlby High
Ebor A.T. - Staynor Hall CP	Hope Learning Trust - Burton Green Primary
Ebor A.T. - Tockwith School	Hope Learning Trust - Forest of Galtres
Northern Star AT - Harrogate High	Hope Learning Trust - Manor CoE Academy
Northern Star AT - Hookstone Chase	Hope Learning Trust - Poppleton Ousebank
Northern Star AT - New Park Primary	Hope Learning Trust - Vale of York
Northern Star AT - Skipton Girls High School	Norton College - an 11-19 academy
Outwood Grange A.T. - Greystone CP School	Pathfinder MAT - Acomb Primary
Outwood Grange A.T. - Outwood Acad.Ripon	Pathfinder MAT - Archbishop Holgates School
Red Kite Learning Trust Pooled	Pathfinder MAT - Badger Hill School
Rodillian MAT - Brayton High School	Pathfinder MAT - Clifton with Rawcliffe School
Rossett School Academy	Pathfinder MAT - Hempland School
Scalby Learning Trust	Pathfinder MAT - Heworth School
South Bank Multi Academy Trust	Pathfinder MAT - New Earswick School
South Craven Academy Trust	Pathfinder MAT - St Lawrence School
South York MAT - Fulford School	Pathfinder MAT - Tang Hall School
Yorkshire Causeway S.T - .Hampsthwaite	Selby Educational Trust
Yorkshire Causeway S.T - .Oatlands Infant	The Grove Academy,
Yorkshire Causeway S.T - .Pannal Primary	The Woodlands Academy
Yorkshire Causeway S.T - .Richard Taylor CE	Thomas Hinderwell Primary Academy
Yorkshire Causeway S.T - .St Aidans	Yorkshire Collaborative Academy Trust
Yorkshire Causeway S.T - .St Peters CE	Yorkshire Endeavour Academies Trust
Yorkshire Causeway S.T - North Rigton	

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

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

	31 March 2018	31 March 2017
Number of Employers with Active Members	157	140
Employees in the fund		
NYCC	17,690	19,528
Other Employers	15,420	14,031
Total	33,110	33,559
Pensioners		
NYCC	11,636	11,017
Other Employers	9,826	9,424
Total	21,462	20,441
Deferred Pensioners		
NYCC	22,515	20,318
Other Employers	13,284	12,829
Total	35,799	33,147

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 2018. 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 2017/18 were set at the 2016 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 2017/18 financial year and its year end position as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. Summary of Significant Accounting Policies

Fund Account - Revenue Recognition

a) Contribution Income

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

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

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

b) Transfers To and From Other Schemes

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

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

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

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

c) Investment Income

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

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

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

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

Fund Account - Expense Items

d) Benefits Payable

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

e) Taxation

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

f) 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 2018 was £0k (31 March 2017, £55k).

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 2018 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

The Local Government Pension Scheme Investment Regulations 2016 required LGPS fund's to pool their assets in order to achieve cost savings whilst maintaining investment performance. North Yorkshire County Council, as administering authority of the North Yorkshire Pension Fund, has approved the Fund's membership of the Border to Coast Pension Partnership, a pool with a total of 12 funds. During the financial year 2018/19 the phased transition of investment assets from the Fund to Border to Coast Pension Partnership will begin. Some investment assets will continue to be managed by the current Internal and External managers.

7. Contributions Receivable

	2017/18 £000	2016/17 £000
Employee's contributions	26,855	26,413
Employer's contributions		
Normal contributions	74,612	58,793
Past Service Deficit	46,345	38,953
Early Retirement Recharges	2,504	2,602
Compensatory Added Years Recharges	234	489
Total Contributions	150,551	127,250

	2017/18 £000	2016/17 £000
Contributions Receivable		
North Yorkshire County Council	71,483	52,208
Other Scheduled Bodies	69,233	68,944
Admitted Bodies	9,835	6,098
	150,551	127,250

8. Transfers In from Other Pension Funds

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

9. Benefits Payable

	2017/18 £000	2016/17 £000
Benefits Payable		
North Yorkshire County Council	45,588	44,144
Other scheduled Bodies	52,701	53,056
Admitted Bodies	6,830	7,003
	105,119	104,203

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

	2017/18 £000	2016/17 £000
Administrative Costs	1,507	1,852
Investment Management Costs	24,523	14,231
Oversight and Governance Costs	590	403
	26,620	16,486

Investment Management Costs includes 7,376k (2016/17: £1,990k) in respect of performance related fees payable to the Fund's investment managers and £2,826k in respect of transaction costs (2016/17 £2,638k).

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

	2017/18 £000	2016/17 £000
Management Fees	11,381	8,597
Performance Related Fees	7,376	1,990
Custody Fees	90	81
Transaction Costs	3,964	2,638
Other	1,712	925
	24,523	14,231

12. Investment Income

	2017/18 £000	2016/17 £000
Income from bonds	3,418	2,829
Income from equities	16,302	13,507
Pooled Property Investments	1,307	1,313
Pooled Investments - Other Managed Funds	413	0
Interest on Cash Deposits	47	3
Other	2,058	678
	23,545	18,330

13. Taxes on Income

	2017/18	2016/17
	£000	£000
Withholding Tax on Dividends	371	256

14. Investments

a) Reconciliation of Movements in Investments and Derivatives

	Value at 31 March 2018	Change in market value at 31 March 2018	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2017
	£000	£000	£000	£000	£000
Fixed Interest Securities	626,598	10,127	(1,413,385)	1,606,992	422,864
Equities	592,013	19,987	(440,004)	424,231	587,799
Pooled Investments	1,839,822	189,370	(1,457,130)	1,365,549	1,742,033
Pooled Property	276,831	26,818	(2,953)	0	252,966
Private Equity	0	(51)	0	0	51
Derivative Contracts	0	182	0	0	(182)
Total Invested	3,335,265	246,433	(3,313,472)	3,396,772	3,005,531
Cash Deposits	13,887				10,123
Net Investment Debtors	(37,975)	(42,539)			4,564
Net Investment Assets	3,311,177	203,894			3,020,218

	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	422,864	82,714	(1,232,108)	1,230,660	341,598
Equities	587,799	110,792	(287,072)	276,024	488,055
Pooled Funds	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	3,005,535	590,955	(1,717,417)	1,733,852	2,398,145
Cash Deposits	10,123				8,339
Net Investment Debtors	4,564	1,750			2,813
Net Investment Assets	3,020,222	592,705			2,409,297

b) Analysis of Investments (excluding derivative contracts)

	2017/18	2016/17
	£000	£000
Fixed Interest Securities		
UK Public Sector Quoted	626,598	422,682
Equities		
UK Quoted	326,188	308,717
Overseas Quoted	265,825	279,082
	592,013	587,799
Pooled Investments		
UK Equity	67,277	70,284
UK Property	276,831	252,966
UK Fixed Income	0	0
Overseas Equity	1,462,601	1,328,818
Overseas Fixed Income	0	93,095
	1,806,709	1,745,162
Diversified Growth Funds - UK	309,944	249,837
Private Equity - UK	0	55
Total Investments (excl Derivatives)	3,335,265	3,005,535
Cash Deposits	13,887	10,123
Net Investment Debtors	(37,975)	4,564
Net Investment Assets	3,311,177	3,020,222

c) Investments analysed by Fund Manager

	31 March 2018		31 March 2017	
	£000	%	£000	%
Baillie Gifford - Global Alpha	658,308	19.8	604,424	19.9
M&G Investments	585,246	17.6	427,134	14.1
Baillie Gifford - LTGG	475,901	14.3	418,471	13.8
Standard Life Investments - Equities	338,416	10.2	312,208	10.3
Fidelity International	323,116	9.7	340,419	11.2
Threadneedle	174,545	5.2	158,237	5.2
Standard Life DGF	173,477	5.2	138,060	4.5
Veritas	151,620	4.6	154,599	5.1
Dodge & Cox	149,844	4.5	153,007	5.0
Newton Investments	136,467	4.1	111,778	3.7
Legal & General	67,572	2.0	62,453	2.1
Hermes	35,304	1.1	32,866	1.1
Permira	33,346	1.0	5,850	0.2
Blue Bay	8,016	0.2	7,570	0.2
Yorks & Humber Equity Fund	0	0.0	52	0.0
ECM Asset Management	0	0.0	93,095	3.1
Internally Managed (cash and net debtors)	17,389	0.5	15,614	0.5
	3,328,566	100.0	3,035,836	100.0

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 2017	Economic Exposure	Market Value 31 March 2018
Liabilities		£000	£000	£000	£000
UK Fixed Interest	Less than one year	(182)	(182)	0	0

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
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments - overseas unit trusts and property funds	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
Pooled investments - hedge funds	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.
Notes to the Ellebeau Pension Fund Account for the year ended 31 March 2017 Page 31 Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided32

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Freehold and leasehold properties	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
Unquoted equity	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 2018.

Assessed valuation range (+/-)	Value at 31 March 2018	Value on increase	Value on decrease
	£000	£000	£000
Pooled investments - private debt	41,362		
Pooled investments - hedge funds			
Freehold and leasehold property			
Unquoted overseas equity			
Private equity			
Total	41,362		

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
	Level 1	Level 2	Level 3	
Values at 31 March 2018	£000	£000	£000	£000
Financial assets at fair value through profit and loss	1,279,194	2,075,292	41,362	3,395,848
Non-financial assets at fair value through profit and loss				0
Financial liabilities at fair value through profit and loss	(67,282)			(67,282)
Net investment assets	1,211,912	2,075,292	41,362	3,328,566

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
Values at 31 March 2017	£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

17. Financial Instruments

a) Classification of Financial Instruments

31 March 2017				31 March 2018		
Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost		Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost
£000	£000	£000		£000	£000	£000
			Assets			
422,864			Fixed Interest Securities	626,598		
587,799			Equities	592,013		
1,492,196			Pooled Investments	1,529,878		
252,966			Pooled Property	276,831		
249,837			Diversified Growth Funds	309,944		
55			Private Equity			
	18,806		Cash		26,358	
6,234			Investment Debtors	24,990		
	8,675		Non Investment Debtors		9,234	
3,011,951	27,481	0		3,360,255	35,592	0
			Liabilities			
182			Derivative Contracts	0		
1,670			Investment Creditors	62,965		
		1,743	Non Investment Creditors			4,317
1,853	0	1,743		62,965	0	4,317
3,010,099	27,481	(1,743)		3,297,290	35,592	(4,317)

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) Net Gains and Losses on Financial Instruments

	2017/18	2016/17
	£000	£000
Fair Value Through Profit & Loss	246,433	590,955
Loans and Receivables	(38,775)	37
	207,658	590,992

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 periodically reviewed regularly to reflect changes in activity and in market conditions.

a) Market Risk

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

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

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

The Fund manages these risks in two ways:

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

Other Price Risk

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

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

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

Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

Asset Type	Potential Market Movements (+/-)
	%
Cash and Cash Equivalents	1.0
UK Bonds	9.0
UK Equities	19.0
Overseas Equities	20.0
UK Pooled Equities	19.0
Overseas Pooled Equities	20.0
UK Pooled Bonds	9.0
Overseas Pooled Bonds	9.0
Pooled Property Investments	12.5
Diversified Growth Funds	10.0
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 2018	Potential Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and Cash Equivalents	13,887	139	14,026	13,748
UK Bonds	626,598	56,394	682,992	570,204
UK Equities	326,189	61,976	388,165	264,213
Overseas Equities	265,825	53,165	318,990	212,660
UK Pooled Equity	108,639	20,641	129,280	87,998
Overseas Pooled Equity	1,421,239	284,248	1,705,487	1,136,991
UK Pooled Bonds	0	0	0	0
Overseas Pooled Bonds	0	0	0	0
Pooled Property Investments	276,831	34,604	311,435	242,227
Diversified Growth Funds	309,944	30,994	340,939	278,950
Private Equity	0	0	0	0
Derivatives	0	0	0	0
Non Investment Debtors/Creditors	4,918	0	4,918	4,918
Total Assets	3,354,070		3,896,231	2,811,909

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

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 2018 and 31 March 2017 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2017/18	2016/17
	£000	£000
Cash and Cash Equivalents	13,887	10,123
Fixed Interest Securities	626,598	422,864
	640,485	432,987

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 £6,405k and for 2016/17 asset values, £4,330k.

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 +/-9.9%. 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 9.9% 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:

	Value as at 31 March 2018	Value on 9.9%	Value on 9.9%
Asset Type		Increase	Decrease
	£000	£000	£000
Overseas Equities	1,687,064	1,854,083	1,520,045
Overseas Bonds	0	0	0
Total Assets	1,687,064	1,854,083	1,520,045

	Value as at 31 March 2017	Value on 9.8%	Value on 9.8%
Asset Type		Increase	Decrease
	£000	£000	£000
Overseas Equities	1,607,899	1,765,473	1,450,325
Overseas Bonds	93,095	102,219	83,972
Total Assets	1,700,994	1,867,692	1,534,297

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 £12.5m (31 March 2017, £8.6m) and was held with the following institutions:

	Credit Rating	31 March 2018 £000	31 March 2017 £000
Call Accounts			
Barclays	A / F1	1,539	552
Santander UK	A / F1	0	227
Fixed Term Deposit Notice Accounts			
Bank of Scotland	A+ / F1	1,904	2,396
Leeds BS	A- / F1	0	366
Nationwide	A / F1	423	1,127
Commonwealth Bank of Australia	AA- / F1+	635	0
Santander UK	A / F1	1,430	900
Goldman Sachs	A / F1	1,692	1,127
Aberdeenshire Council	-	212	0
Ashfield District Council	-	85	0
Birmingham City Council	-	423	0
Doncaster Metropolitan Borough Council	-	212	0
Dudley Metropolitan Borough Council	-	254	0
Dundee City Council	-	212	0
Eastbourne Borough Council	-	592	0
Fife Council	-	0	141
Hambleton District Council	-	212	155
Isle of Wight Council	-	0	282
Lancashire County Council	-	212	282
Lancashire PCC	-	212	0
North Tyneside Metropolitan Borough Council	-	212	0
Northumberland County Council	-	0	141
Runnymede Borough Council	-	212	0
Salford City Council	-	0	141
Tewkesbury Borough Council	-	212	0
Warrington Borough Council	-	592	282
West Berkshire District Council	-	0	113
West Dunbartonshire Council	-	381	310
West Yorkshire PCC	-	190	0
Woking Borough Council	-	423	141
		12,471	8,683

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 2018 the value of illiquid assets was £0k (31 March 2017, £55k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2018 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 2017/18 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

Debtors	2017/18 £000	2016/17 £000
Investment Debtors		
Investment Transactions	19,805	2,490
Accrued Dividends	3,204	2,058
Withholding Taxes Recoverable	1,981	1,686
	24,990	6,234
Other Debtors		
Contributions due from Scheduled (Government) Bodies	8,054	7,449
Contributions due from Admitted Bodies	416	429
Pensions Rechargeable	377	301
Interest on Deposits	0	0
Other	388	496
	9,235	8,675
Total Debtors	**34,225**	**14,909**

22. Current Liabilities

Creditors	2017/18 £000	2016/17 £000
Investment Creditors	62,965	1,670
Sundry Other Creditors	4,317	1,744
	67,282	3,414

23. Additional Voluntary Contributions

	Market Value 31 March 2018 £000	Market Value 31 March 2017 £000
Prudential	20,267	19,958

AVC contributions of £2,007k were paid directly to Prudential during the year (£1,846k in 2016/17).

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 £1,322k (£1,231K in 2016/17) 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 £71.5m to the Fund in 2017/18 (£52.2m in 2016/17).

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 2018 the Fund had an average investment balance of £14m (-£2.4 m during 2016/17) paid interest of £69.1k (£15.1k received in 2016/17) on these funds.

Governance

As at 31 March 2018 there were no Pension Fund Committee Members who were also active members of the Fund. The Corporate Director - Strategic Resources, who was also the Treasurer of the Fund was an active member. Benefits for the Treasurer was 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 2016/17).

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 2016/17).

Appendix B

Statement of the Actuary

North Yorkshire Pension Fund
Statement of the Actuary for the year ended 31 March 2018

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, 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 from 1 April 2017, 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'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. 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. Since the date the valuation report was signed, HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, has made an announcement to extend the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off before the announcement, but the increase in liability is not expected to be material.

9. This Statement has been prepared by the Actuary to the Fund, Aon, 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 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 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

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

Aon Hewitt Limited
20 April 2018

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

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You can request this information in another language or format at
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Appendix 5

NORTH YORKSHIRE PENSION FUND

Governance Compliance Update

Pension Fund Committee

4TH SEPTEMBER 2018

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Contact

Peter Scales
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1.0 Summary Observations

- I have reviewed the business and minutes of Committee and Board meetings and I am satisfied that governance standards are being maintained and improved.
- The Pension Board continues to operate effectively and in line with its responsibilities.
- I have reviewed the policy documents that were agreed and/or ratified at the Committee meeting on 5th July 2018 and those submitted to the meeting on 13th September. I am satisfied that they are compliant with the regulatory requirements and reflect good practice.
- The new pooling arrangements (BCPP) are settling down and assets are in the transition process. Governance arrangements will need to be reviewed and updated to ensure the Committee and Board are best able to meet their responsibilities.
- Other issues developing nationally by the Scheme Advisory Board should be monitored and responded to as and when appropriate.

2.0 Introduction

2.1 I last reported on the governance arrangements for the North Yorkshire Pension Fund to the Committee on 23rd February 2017. Since then, the Fund has been heavily engaged in developing and implementing new pooling arrangements, on which I comment later in this report.

2.2 At that meeting I was asked to help inform the Committee on what other funds are doing in the context of governance arrangements and my observations try to reflect my experiences elsewhere. However, while all LGPS funds are operating under a common regulatory framework, there are, as might be expected, many individual approaches at fund level.

2.3 The Local Government Association organised a cross pool forum in March which I was unable to attend. I understand that there are plans to form a representative group which can meet on a regular basis. I am aware also of issues that have been discussed between funds within the same pool and between pools. Such cooperation is not new but the pooling arrangements have brought a sharper focus to developing common good practice.

2.4 For this meeting, I have been asked to report specifically on reviewing the various governance documents reported to the Committee at its meeting on 5th July and those further documents reported to this meeting. My observations on these documents form the major part of this report.

2.5 I have included some commentary on discussions at the Scheme Advisory Board level of which the Committee should be aware, and also some recent national dialogue relating to local pension boards and pooling.

3.0 Core business activity

3.1 Part of my governance review involves monitoring the reports and minutes of Committee meetings and of Board meetings. While this may give only a limited perspective on the detail of meetings, it does enable me to form the view that governance standards are being maintained and improved. From my limited experience, I believe these standards are at a high level and consistent with the other funds with which I am involved.

3.2 It is worth mentioning the recent internal audit report (July 2018) and the overall conclusion that the arrangements for managing risk were good, an effective control environment is in operation, and that the controls within the system provide “Substantial Assurance”.

3.3 It is to be expected in any organisation that there will always be areas for improvement, particularly where the regulatory and guidance regime is so specific and so detailed. The majority of the issue/control weaknesses identified though important are not significant and can be easily rectified. Problems related to the supply of end-year data by employers is a continuing issue and is not confined to the North Yorkshire Pension Fund.

3.4 It is impossible for the members of the Committee and the Board to monitor every detail of the scheme administration. Audit assurance provides one of the tools to help members to meet their responsibilities and to test the robustness of internal controls.

4.0 Review of policy documents

4.1 I have reviewed each of the policy documents submitted to the Committee on 5th July and those submitted to the meeting on 13th September. Overall I found the documents to be compliant with the regulations but have set out some observations below:

4.2 **Investment Strategy Statement**: [**Compliant with Reg 7 of the Investment Regulations and is in accordance with MHCLG guidance**]

4.2.1 Paragraph 7.4 refers to compliance with the 'Myners Principles' which is commendable but no longer a regulatory requirement. Other funds are removing this reference.

4.2.2 The publication of voting action is new to the Fund and the Committee will wish to consider how much detail can be posted on the website in practice. It will also be necessary to consider how the new pooling arrangements will impact on share ownership and the exercise of voting rights.

4.2.3 Paragraph 1.5 refers to the Pension Board having been consulted which is entirely appropriate in the context of compliance and training. The Committee should be aware that the MHCLG guidance in relation to Regulation 7(2((e) states that in "*maintaining their policy on social, environmental and corporate governance factors, an administering authority: Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors.*"

4.2.4 I have mentioned this somewhat 'odd' suggestion in the guidance to the Committee previously and elsewhere to other funds, particularly as the responsibilities of local pension boards specifically excluded investment decision making in guidance issued at the time.

4.2.5 This needs to be considered in the context of regulation 8 which gives powers to the Secretary of State to issue a direction in relation to the investment function having had regard to, inter alia; "*any report from the local pension board appointed by the authority or from the LGPS Scheme Advisory Board*".

4.2.6 The Committee will be aware that one particular section of the MHCLG guidance relating to the prevention of funds pursuing boycotts, etc. as part of its investment strategy was challenged successfully in the Courts and the paragraph was removed. However, in a recent appeal, the Court of Appeal ruled in favour of the Government on this point. As far as I am aware, the guidance has not been amended further pending an appeal if lodged.

4.3 **Governance Compliance Statement**: [**Compliant with Reg 55 of the LGPS 2013 Regulations and with MHCLG guidance**]

4.3.1 The MHCLG guidance issued in 2008 is inconsistent with the regulations relating to local pension boards. However, the North Yorkshire Statement has been carefully worded to reflect all aspects of the regulations and guidance.

4.3.2 Paragraph 4.1 refers to “Myners first principle” which is a helpful reference but as indicated above, has become less meaningful. An explanatory footnote could be helpful.

4.3.3 In 6.0 section c, it is assumed that the Pension Board is a secondary committee for the purposes of the Statement although the PB is not a committee in legal terms. It might be worth making this point in a footnote and it would be helpful to refer to the chair of the Pension Board attending meetings of the Committee, albeit in a non-voting capacity.

4.4 **Governance Roles and Responsibilities**: **[No regulation or specific guidance]**

4.4.1 I was not clear as to the purpose of this document, whether it related to the Governance Compliance Statement and/or the Breaches Policy, and whether it was to be published for external use or for internal use only.

4.4.2 Whatever its use, it does not make clear that the Pensions Regulator only has responsibility for administration matters, and it does not mention the roles of the MHCLG or the Scheme Advisory Board or the Pension Board.

4.4.3 To further complicate matters, the new pooling arrangements will need to be reflected in such a chart of roles and responsibilities, particularly to articulate the inter-relationships between the parties.

4.5 **Funding Strategy Statement**: [**Compliant with Reg 58 of the LGPS 2013 Regulations and has regard to the CIPFA guidance and the Investment Strategy Statement**]

4.5.1 This Statement will be reviewed as part of the 2019 Triennial Valuation and I have no other observations to make at this time.

4.6 **Communications Policy**: [**Partly compliant with Reg 61 of the LGPS 2013 Regulations**]

4.6.1 I note that this is a simplified statement and much more ‘user friendly’, and that there are a number of activities in progress. However, I would question whether the statement in itself complies with Regulation 61 (2) (b) in setting out the policy on “*the format, frequency and method of distributing such information or publicity*”.

4.6.2 This point is particularly relevant as most funds, like North Yorkshire, are seeking to switch from paper to electronic based communications and with a mixed reception from scheme members, less so employers. In many cases the onus is being transferred to the scheme member to ‘locate’ information rather than the administering authority making them aware.

4.6.3 In any event, North Yorkshire will have a policy on this and some indication should be given in this policy statement.

4.7 **Risk Register**: [**tPR Code of Practice No. 14**]

4.7.1 Compliance in this context means the existence, use and understanding of risks. There is no common framework or structure that should be followed, and each authority should develop a working framework that suits their operations and risk appetite. North Yorkshire has done exactly this in a relatively (and refreshingly) simple framework.

4.7.2 The only observation I would make is that I would expect the work of the Pension Board to feature as part of the mitigating process if only in an oversight or 'double check' capacity. The Board is mentioned in the section on pooling but I would suggest that the Board has a clear role in reducing the risk in regard to compliance with regulations, for example. This is not an uncommon situation but I am seeing local pension boards seeking to insert their activities into risk reduction actions where appropriate.

4.7.3 I am aware of suggestions that each local pension board should have its own risk register. I do not consider that to be necessary but it may suit some boards if they feel it would help meet their responsibilities.

4.8 **Risk Management Policy**: [**tPR Code of Practice No. 14**]

4.8.1 The policy is relatively simple and easy to understand, and reflects good practice in risk management. If I were defining risk (paragraph 2.0) in the context of the pension fund, I would expect to include more specific references to the risk of illegality, fraud, administrative error, regulatory compliance, and reputational risk, for example. These are covered by the risk register.

4.9 **Administering Authority Discretions Policy**: [**Compliant with Reg 60 of the LGPS 2013 Regulations]**

4.9.1 It would not be feasible for me to comment on each discretion policy but the statement is compliant, well presented and appears to be comprehensive.

4.10 **IDRP Guide**: **[Compliant with Occupational Pension Schemes (IDRP) Regulations 2008 and tPR Code of Practice No. 11]**

4.10.1 I am not sure why the reference to the Pensions Advisory Service (TPAS) has been deleted as I thought this was still a regulatory requirement although no reference is made in tPR Code of Practice. This part of the regulation may not apply to the LGPS but many funds retain this reference in their guides.

4.11 **Business Plan**: **[Reflects good practice and tPR guidance]**

4.11.1 I have taken together the activity tracker reported on 5th July and the business plan submitted to this meeting. The concept of business plans for pension funds has been around for many years and given prominence in the Myners Principles some 15 years ago. However there is no regulatory framework that prescribes the content of plans and I can confirm that the plan reported reflects tPR guidance and good practice elsewhere.

4.11.2 Clearly the plan is still developing and I would observe that there is no mention of risk management in the objectives or a link to the risk management policy and register. Some funds make a distinct link between reviewing progress on the business plan with a regular review of risk management.

4.11.3 While the activity tracker provides a comprehensive list of activities no indication is given of how these will be covered over the next year or two years. Some funds work on a two-year rolling programme but with obvious flexibility as issues develop. Also it would be worth considering whether any work plan developed for the Pension Board is consistent with the Committee's Plan although there is no requirement in this respect.

4.12 **Stewardship Code Compliance Statement**: [**MHCLG Guidance**]

4.12.1 While not a formal regulatory requirement, compliance with the Code is suggested as good practice. The North Yorkshire Statement is consistent with good practice elsewhere.

4.13 **GDPR Privacy Notice and MOU**: [**Compliant with regulations**]

4.13.1 Recognising the wide requirements on the County Council as a whole and the need for consistency, these statements comply with the regulatory requirements, are comprehensive and relatively simple to understand.

4.13.2 A point noted elsewhere is that pension committees and boards should seek to ensure they are not provided with personal data (e.g. on an individual complaint) unless absolutely necessary. This is a problem particularly for trustees in private sector pension funds.

4.14 **Breaches Policy**: [**Compliant with Regulation 70 of the Pensions Act 2004 and tPR Code of Practice No. 14]**

4.14.1 This is an area where the Pensions Regulator is becoming increasingly interested and one that is relatively new to the LGPS, although reporting requirements have existed for many years in line with private sector schemes. The policy is comprehensive and an invaluable guide for those dealing with breaches.

4.14.2 The question has arisen in other funds about the role of the local pension board in this process, not only in monitoring compliance but also as to whether there is any independent role for the Board in escalating reporting where the current structure fails, e.g. reporting direct to tPR, MHCLG or the Scheme Advisory Board.

4.15 **Pensions Administration Strategy**: [**Compliant with Reg 59 of the LGPS 2013 Regulations]**

4.15.1 It is not a requirement of the regulations to have a strategy but if one is prepared then it must comply with Regulation 59. The strategy as drafted does so comply and is consistent with strategy statements I have seen elsewhere.

415.2 Regulation 59(2)(f) requires the publication of annual reports on the achievement of performance levels set out in the strategy. This is also covered in Regulation 57(g) which requires such reports to be published in the pension fund annual report. The Committee may wish to consider including a reference to this reporting requirement in section 4.0 of the Strategy.

4.16 **Employer Charging Policy: [Compliant with Reg 70 of the LGPS 2013 Regulations]**

4.16.1 The policy complies with the regulations and provides clear indications of when charges will be made and what those charges will be. In my view this represents good practice and better practice than in some other authorities.

4.17 **Training Policy**: **[Reflects CIPFA guidance]**

4.17.1 As I have reported to the Committee previously, it is important to distinguish between the requirements placed on elected members and on those appointed to a local pension board. The former is not subject to regulation or regulatory guidance, while the latter is subject to both. Furthermore, the Committee, in demonstrating a level of competency, can rely on the collective knowledge and skills of the Committee members and advisers, whereas members of a local pension board must be able to demonstrate individual competence.

4.17.2 Notwithstanding the formal statutory position, it is certainly good practice to ensure all members of the Committee and Board seek to ensure they have a suitable level of knowledge and skills, and this training policy seeks to do that using frameworks suggested by CIPFA. This is common across most pension funds.

4.17.3 I should point out that while tPR toolkit is a useful training resource it is necessary to recognise its relevance to the LGPS. The web link provided is for pension funds generally and is therefore more specific to private sector scheme. However, taking that in account, it can help Committee member particularly as it covers investment strategy. The toolkit for local pension board members is on tPR public sector site (www.thepensionsregulator.gov.uk/public-service-schemes.aspx) and is quite different, particularly as it does not cover investment.

4.17.4 Committee members may find it useful to complete the toolkit for pension board members, which is relatively straightforward, and those parts of the general toolkit that cover investments and other elements appropriate to the LGPS.

4.18 **Annual Report: [Compliant with Reg 57 of the LGPS 2013 Regulations and has regard to the Secretary of State and CIPFA guidance]**

4.18.1 As I have reported to the Committee previously, the requirements of the regulation and guidance are extensive. I am satisfied that the draft annual report complies with the regulation and that the Committee has had regard to the CIPFA guidance. It is for the Committee to decide how much information, as suggested by CIPFA, is necessary for inclusion in an annual report which is already extremely detailed and complex, but I will comment on some elements.

4.18.2 First, in regard to the action recommended by the internal auditor in July, I would comment as follows:

[1] Details of employer contributions - The web link has been inserted but the information but as forecast in the valuation and does not show the actual contributions paid by each employer in the year of account. The report should either say that all contributions were received or any variation. Employee contributions will in any event vary by levels of pay. In practice, CIPFA is suggesting a breakdown of the figure in the accounts.

[2] Performance on paying contributions on time - The Committee is to be asked to give guidance on this. While it might not be appropriate to give details of each employer, it would be useful to indicate the scale of any late payments (or not), what recovery action is taken and if interest is charged.

[3] Information about the Committee - The web link has been inserted but this does not cover details of attendance during the year. Although this can be found by looking at the minutes of each meeting, many funds include a simple table of attendance.

4.18.3 The other significant items that I would mention are:

- There is not a statement of compliance with the CIPFA Code of Practice in the terms required by that guidance.
- There is no information on employer performance against the standards set in the Pensions Administration Strategy.
- Many funds include an annual report from the chairman of the local pension board and there is no mention of the board's activities, not even a web link.

5.0 Implementation of pooling arrangements

5.1 As I have indicated on previous occasions, the introduction of pooling arrangements represents a major change in the way LGPS funds are invested and I don't need to remind the Committee of the difficult and complex process they have gone, or are still going through.

5.2 At this stage, I believe there are still a number of detailed governance issues to be resolved particularly in the transition to a new structure through which the Committee and Board can continue to meet their responsibilities. While there will be guidance and advice on generic processes the Committee and Board will need to develop practical governance arrangements that work best for them.

5.3 As I mentioned in paragraph 2.3 above, the Chairs of LGPS pension committees and local pension boards attended an open session on 27th March where representatives from the eight asset pools reported on their progress in establishing their organisational structures and governance arrangements. A copy of the presentations used on the day can be found on the Scheme Advisory Board (SAB) website.

5.4 The SAB reports that steps will soon be taken to establish the Cross Pool Open Forum approved by the Board in February 2018, comprising three representatives from each of the eight pools and three trade union representatives.

5.5 Appendix A is a briefing paper I prepared for another fund based on issues which I was aware might be raised or which I felt merited some consideration. The points raised are generic but may be of use to the Committee and Board as these arrangements develop.

5.6 At its meeting on the 16th February 2018, the SAB agreed to review the wording of the policy statement on pool governance published on the 23rd March 2017. The following statement was subsequently agreed (revised text shown in bold):

"The Board recognises that it is for scheme managers within each pool to develop appropriate governance to assure all stakeholders of the transparent and effective implementation of strategy. In this respect the Board notes the comments made by the then Local Government minister Marcus Jones MP on this matter in the Westminster Hall debate on 24th October 2016. The Board recognises that strategic decisions on asset allocations and responsible investment will remain at the local level and therefore the involvement via local pension boards of those employers beyond the scheme manager along with member representatives in those areas would continue.

However the Board ***would expect that*** *scheme managers involve those same employers and member representatives in assisting with the assurance of transparent reporting from pools and ensuring the effective implementation of strategies by pools. Such involvement should include the consideration of provision of direct representation on oversight structures.* ***In line with the UK Corporate Governance Code principle of 'comply or explain', any pool making a decision to exclude member representatives from their formal oversight structures should publish this decision and formally report the reasons to the local pension boards which the pool serves****."*

5.7 More recently, there was some discussion at a CIPFA Conference for Local Pension Boards on 27th June on the role of LPBs in pooling. I was unable to attend this event but a summary of the discussion has been circulated to attendees and I have circulated this to officers at funds with which I have an involvement. The summary is attached as Appendix B.

5.8 While the comments are mainly from a local pension board perspective and are not in any way conclusive, the Committee may find it useful to know how pension boards generally are reacting to the new pooling arrangements.

5.9 In my view, the underlying issue is whether or not scheme member representatives should have a role in the investment decision making process, particularly in regard to responsible investment. As I have indicated to the Committee previously, my view is that local pension boards have a role in ensuring compliance and efficient processing but not in detailed investment decisions.

6.0 Other issues

6.1 The SAB in March considered three key projects in their Work-plan for 2018-19:

[1] The separation project with the objective to identify both the issues deriving from the current scheme administrative arrangements and the potential benefits of further increasing the level of separation between host authority and the scheme manager role. This project was first raised in 2015 and some initial investigative work done. However it was put on hold while pooling was progressed.

[2] A project proposed by MHCLG to identify regulations which may be better sited within statutory guidance and assist with the drafting of revised regulations and guidance.

[3] A project to assist administering authorities in meeting the Pension Regulator's requirements for monitoring and improving data, to include the identification of scheme specific conditional data and the production of guidance for authorities and employers.

6.2 I do not know if any or all of these projects were approved but if they proceed, each will affect the Committee and Board. However, the following extract from the SAB website gives an indication of further action in regard to [1] above:

"21st August 2018 - Scheme Advisory Board opens invitation to bid, "Options for separation of host authority and pension fund". Following a report by KPMG examining the issues and challenges of separating the pension's functions of LGPS, the next stage is to see how the recommendations that emerged from the report could be made to work. For more information and instructions on how to bid, please see the invitation to bid page."

Further information is available on their website.

Appendix A – Briefing for Cross Pool Forum

The presentation slides from Roger Philips are fairly general and specific to the Forum. There is however an interesting point on Slide 7 about "The context of pooling in the LGPS" in the final bullet point, i.e.:

"Pool authorities should drive responsible investment strategies within pools not be pushed down a particular road."

To my mind this blurs, perhaps deliberately, the issue of responsible investment strategy and it may help to set this in the context of appointing an external investment manager.

Investment strategy per se is determined by the Administering Authority (AA) in compliance with regulations and guidance. The particular strategy for a manager that is appointed will be contained in the Investment Management Agreement (IMA). To some extent strategy may be influenced by investment vehicles available from managers.

Responsible investment strategy is not defined by regulation or guidance, simply the need to state any policy on the subject. That policy is for the AA to determine but implementation may be influenced by the manager selected unless a segregated account is used.

In these two respects, it seems more likely that pooling will push AAs down a particular road on the latter because they are pooled products by definition, combining the policies of a number of AAs. For the former, AAs should expect the pool to implement their strategies within the vehicles they operate.

The alternative suggestion is that the pools will 'blend' the strategies of the AAs into a cost effective mix. But that is not what Roger Philips is suggesting.

All this leads to some general questions from the local pension board perspective that come to mind and are being asked by other authorities:

Will the SAB be updating its guidance on LPBs to reflect asset pooling to clarify the role of LPBs in respect of scrutiny of AAs on this topic?

Will or could the SAB issue national guidance in respect of the interpretation of the role of LPBs set out in the July 2017 DCLG statutory guidance on preparing and maintaining Investment Strategy Statements. It states "ISS's should explain the extent to which the views of their Local Pension Board will be taken into account when making an investment decision based on non-financial factors, and they must explain the extent to which non-financial factors will be taken into account in the selection, retention, and realisation of investments". There is some confusion as to what non-financial factors this includes and how LPBs should do this in 2018 onwards with the asset managers employed by the asset pool in order for LPBs to fulfil their remit in this area?

Will the SAB be consulting LPBs on the draft SAB responsible investment guidance for LGPS funds which might cover the issue above to provide a national steer to LPBs?

These are some more general questions that might crop up:

- Has due regard been given to CIPFA guidance on governance principles?
- Will the service agreements (similar to investment management agreements) impose compliance with the LGPS Investment Regulations where appropriate?
- What procurement arrangements are required for the appointment of external asset managers and how will these arrangements be monitored for compliance purposes?
- In what form and by what process will the Pool Committees report back to Pool Authorities and what assurances regarding performance and compliance will be given?
- How will a Pool Authority’s treasury management strategy be applied, particularly in relation to the timely deposit of cash and any short term borrowing requirements in accordance with the investment regulations?
- How will foreign currency requirements be managed and/or hedged?
- Will a Pool Authority’s auditors have access to the Pool Companies to assess internal controls?
- Will there be assurance reports from third parties (e.g. what I remember as FRAG reports)?
- Will Pool Authorities be able to influence risk management arrangements and receive assurances on compliance?
- How will voting rights be exercised, monitored and reported?
- What happens if a Pool Company consistently fails to deliver performance and/or compliance? [This is a longer term question but pre-pooling a fund manager could be sacked.]

Peter Scales

23rd March 2018

Appendix B - LPB Conference 27th June 2018

Summary of discussion on LPB role around pooling

It was agreed that a summary of the discussion on the LPB role in pooling would be provided to delegates which they could then use with their Boards and to Bob Holloway to feedback to him as in order to attend the meeting of the Scheme Advisory Board he had not been able to remain for the debate

The discussion was stimulated following a presentation by Bob on the role of the Local Pension Boards (LPB) in pooling and covered the role that the Board members felt they should have.

The debate centred on whether the LPB should have representation in the pool governance structure. The following is a summary of the points raised by delegates:

Points Raised

The LPB role is to scrutinise the Committee so they should not be involved in pooling directly. This should work well as long as the Committee Chair is active in the pooling structure and communicates well with the Fund/Board.

Not concerned about being represented on the Board, but on giving good advice. The issue is how to give value and consistent advice if Boards do not talk to other Boards in the pool.

Some delegates felt that Boards should be positioned so they can with a reasonable degree of confidence gain assurances, perhaps as a group of Boards/Chairs within the Pool, that the Joint Governance Committee (or equivalent body) is adhering to its own Terms of Reference and other agreed procedures.

There is a need for clarity in the administering authority/pool governance structures to define who is responsible for what so that the LPB know who they are scrutinising and who should provide assurances they seek.

LPB role is to assist the Scheme manager so they should support the committee but if they are not involved in the pool how can they offer assistance? Central Pool LPB's have got together to share views on the Pool which was a popular idea.

It is important who LPBs feedback to. Having a seat from a group of chairs would allow a collective view to be heard and would be better than one Fund raising the point.

It took a long time to get LPBs and now the goal posts have moved. As the Pool manages scheme members' assets the scheme members should be involved with a vote although that would need to be by the right person with knowledge / so that members are remembered.

Specifically London CIV should have a credit rating to assess their risk.

LPB members are volunteers and should not be running operations. Not all are experts. The issue is all about good governance.

A popular view was that the role is to scrutinise so they cannot be part of the decision making i.e. part of the pool structure.

The position as an observer was also a popular view although it was clear this meant different things to different people in terms of whether the observer role was active or passive. Again getting LPB chairs in Pools together was popular to feedback to Committees and this also linked with the scheme member point being on a Pool Board as someone to share those views.

Some felt that as pools are mandatory then it is more important for the LPB to have a role but to be effective they needed to be expert. There was concern that the London pool was too big and the voice of the member will be lost. Members should have a role in the pool to know what is going on with their money.

Brunel explained they have two scheme members as observers on the Pool Oversight Board who were existing LPB scheme member representatives and democratically elected by all the LPB members. LPB members from all the Funds meet and feed into them. LPBs can work together on Funds in a pool to get member representation.

There was a feeling that in some cases the LPB were more expert than the Committee as some Committees had significant turnover and had no idea what pooling was about.

Again the view that LPB members should not be involved with decision making was supported. It was suggested that LPBs could comment on any concerns on the Pool governance arrangements in their Annual Report. Picking up on these reports MHCLG or SAB could issue guidance on the role of LPBs with regard to pools. There was also a view that SAB should comment on capability of Committees in terms of experience i.e. the turnover issue.

There was also concern that some Committees still exclude LPB members for private agenda items although this practice was variable – did the recent survey pick up on this and could guidance be issued?

There was view that pooling was effectively privatising scheme member assets with no way to scrutinise it and LPB members should resist this.

In the USS Board members are well paid, on a smaller scale should LPB members be paid to raise standards?

It was recognised that the London CIV had the biggest challenge with 32 Funds but whilst difficult they should still try and work together and get the LPB Chairs to collaborate, perhaps LGA/London Councils could facilitate?

Could the regulations be amended to establish an Oversight Committees and their role?

It was not the role of the LPB to check if the operator is doing the right thing. It is the role of the LPB to review that the administering authority is managing the operator properly and a route to do this should be found.

Summary

Overall the view appeared to be that LPBs should be very cautious about getting involved in decision making roles and the focus should be on scrutinising how the Committee\administering authority is managing the pool.

There was support for an observer role and this is clearly working well in some Pools; it was felt that attending in person can provide a different understanding and view of what they mean than reading the reports and minutes.

There was interest in the idea of the LPB chairs within each pool meeting as is already practiced by some although London may need to meet in smaller groups.

The different Pool models make prescribing a solution difficult. There needs to be a clear process for making Pools accountable but in a free market environment this could be restrictive.

Appendix 5

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