**NORTH YORKSHIRE COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

**26 NOVEMBER 2021**

# PENSION FUND ANNUAL REPORT 2020/21

**Report of the Treasurer**

## 1.0 PURPOSE OF THE REPORT

1.1 To ask Members to approve the Pension Fund Annual Report 2020/21.

## 2.0 FINAL ACCOUNTS AND ANNUAL REPORT 2020/21

2.1 The draft NYPF Statement of Accounts was brought to the Pension Fund Committee on 02 July 2021 for noting. At the time of writing this report the audit has not been completed, however it is expected that the Fund's auditor Deloitte will issue an unqualified opinion in due course.

2.2 The final Statement of Accounts is included in the Annual Report (section 3). This document is also subject to audit. Again, the audit is ongoing, with an unqualified opinion expected. The Annual Report is attached as **Appendix 1**.

2.3 Each year Deloitte issue a report on the audit, identifying areas of focus and issues that have arisen throughout the process. The latest version of this report is attached as **Appendix 2**.

2.4 The main finding during the audit was an uncorrected misstatement of the Fund's investment assets (£9m understatement) due to an error in a Custodian accounting report. As this was well below the materiality threshold, the accounts were not amended.

2.5 Between the time of writing this report and the time of the Committee meeting it is expected that progress will have been made on the audit. A verbal update will be provided at the meeting.

2.6 From discussion with the auditor, we do not expect there will be any material changes to the Accounts or the Annual Report, therefore Members are asked to approve the Annual Report (which includes the Accounts) attached to this report.

2.7 Following Members approval, the Annual Report will be published on the NYPF website. The deadline for publishing this document is 1 December 2021.

## 4.0 **RECOMMENDATIONS**

4.1 Members are asked to approve the Pension Fund Annual Report for 2020/21.

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

17 November 2021

North Yorkshire Pension Fund

North Yorkshire Pension Fund

# Annual Report and Accounts 2020/21

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, the Scheme). All aspects of the Fund's management and administration, including investment matters, are overseen by the Pension Fund Committee (PFC, the Committee), 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 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 2021 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 |
| Don MacKay | 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 |
| Christian Vassie | 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 7).

During the year the PFC formally met on seven occasions supported by its Investment Consultant and the Independent Adviser, 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 |
| Independent Professional Observer | Peter Scales (AllenbridgeEpic) |
| Actuary | Aon |
| Investment Adviser | Leslie Robb |
| Legal Services | Ward Hadaway |
| | Head of Legal Services, NYCC |
| Auditor | Deloitte |
| Banker | Barclays Bank |
| Custodian | Bank of New York Mellon |
| Performance Measurement | BNY Mellon Asset Servicing |
| Asset Pool & Operator | Border to Coast Pensions Partnership (BCPP) |
| Fund Managers | Arcmont |
| | Baillie Gifford |
| | Dodge & Cox |
| | Hermes Investment Management |
| | Leadenhall |
| | Legal & General Investment Management |
| | M&G Investment Management |
| | Newton Investment Management |
| | Permira |
| | PIMCO |
| | 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 NYPF's governance arrangements, and the Fund has its own dedicated risk management policy and risk register with key risks also appearing on the Administering Authority's corporate risk register. Risks are identified and assessed, and controls are in place to mitigate risks. The Fund's risk register is reviewed every year by the PFC and Pension Board and is monitored during the year by officers. The latest review highlighted:

(a) Fund solvency remains a high risk, despite the improved funding position, 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 Part 4). This is a major change to the way in which the Fund is 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 7). 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.

The Council's internal audit team regularly undertake audits across different aspects of the Fund's management and administration. These findings are reported to the PFC and Pension Board as appropriate. Assurance from the appointed Fund managers is obtained through the receipt of control reports.

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 Accounting and Cash Flow

Prior to the start of the 2020/21 financial year, a budget was prepared for NYPF which detailed the annual cost of running the Fund. A cashflow forecast was also produced which detailed the main inflows and outflows of the Fund in the year, for example, contribution income, benefits payable, transfers in and transfers out. The budget was monitored at each subsequent quarterly PFC meeting, and revised as necessary to take into account the latest projections.

The total running costs of the Fund in 2020/21 were £31.5m against a budget of £30m, resulting in an overspend of £1.4m, as shown in the table below:

| EXPENDITURE | Budget 2020/2021 £000 | Outturn 2020/2021 £000 | Variance £000 |
|---|---|---|---|
| **Admin Expenses** | | | |
| Finance and Central Services | 430 | 415 | -15 |
| Provision of Pensioner Payroll (ESS) | 140 | 138 | -2 |
| Pensions Administration Team | 1,090 | 1,059 | -31 |
| Pension Data Reconciliation | 50 | 60 | 10 |
| McCloud | 0 | 0 | 0 |
| Other Admin Expenses | 270 | 244 | -26 |
| | **1,980** | **1,916** | **-64** |
| **Oversight and Governance** | | | |
| Actuarial Fees | 40 | 21 | -19 |
| Custodian & Performance Monitoring Fees | 50 | 70 | 20 |
| Consultants Fees | 290 | 273 | -17 |
| Pooling Project Costs | 70 | 143 | 73 |
| Pooling Operational Charge | 600 | 711 | 111 |
| Other O & G Expenses | 100 | 63 | -37 |
| | **1,150** | **1,281** | **131** |
| **Investment Fees** | | | |
| Investment Management Base Fee invoiced | 2,200 | 2,812 | 612 |
| Performance Fees invoiced | 2,000 | 2,406 | 406 |
| Investment Fees deducted from Fund | 22,760 | 23,080 | 320 |
| | **26,960** | **28,298** | **1,338** |
| **TOTAL** | **30,090** | **31,495** | **1,405** |

The main reasons for the variances were:

- Investment fees – Investment fees incurred in the year were higher than had been anticipated when the 2020/21 budget was set, as they are based on the values of the Fund's assets and these have increased above the original expectations since the start of the year.
- Costs were lower than expected due to reduced costs for the Pensions Administration team and lower website review costs.
- Oversight and Governance - Costs were higher than had been anticipated when the budget was set against the Pooling Operational Charge. This is as a result of a partnership fund withdrawal from the Pool (details under part 4 - Asset Pooling). Costs are now split between 11 and not 12 pension funds.





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

The table below shows the 2020/21 cashflow statement for the Fund:

| | Actual Cashflow 2020/2021 £000 |
|---|---|
| **SCHEME PAYMENTS** | |
| **Benefits** | |
| Pensions | -95,937 |
| Lump Sums | -25,625 |
| | **-121,562** |
| **Payments to and on account of leavers** | |
| Transfers out | -7,992 |
| Refunds to leavers | -387 |
| | **-8,379** |
| **Operational Expenses** | |
| Admin Expenses | -1,916 |
| Oversight and Governance | -1,281 |
| | **-3,197** |
| **TOTAL PAYMENTS** | **-133,138** |
| **SCHEME RECEIPTS** | |
| Employer and Employee Contributions | 133,082 |
| Transfers in (from other schemes) | 10,575 |
| **TOTAL RECEIPTS** | **143,657** |
| **SCHEME SURPLUS/ (DEFICIT)** | **10,519** |
| **CASH FLOW FROM INVESTMENT ACTIVITIES** | |
| Fees Invoiced Paid to Fund Managers | -5,219 |
| Investment Income from Fund Managers | 4,786 |
| Withdrawals and (Deposits) with Fund Managers | -37,135 |
| **TOTAL CASH FLOW FROM INVESTMENT** | **-37,568** |
| **SURPLUS/ (DEFICIT) AFTER INVESTMENT** | **-27,049** |
| **CASH BALANCE B/F** | **138,897** |
| **CASH BALANCE C/F** | **111,848** |

The actual cashflow for the Fund in 2020/21 was a surplus of £10m.

# 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 contributions, the maintenance of pension records and communications with all stakeholders.

Staff within the finance team are responsible for maintaining the Fund's accounts and investment records, monitoring employer contributions, 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 www.nypf.org.uk/formsandguides/publications.shtml.

However, as part of the pension team's customer care policy, all questions raised are dealt with via an internal process with the aim of resolving issues to the satisfaction of the Scheme member as quickly as possible. In 2020/21 eight cases were received via the IDRP process. This represents less than 0.01% of total work processed in the year.

## 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 support and guidance has been provided and employers are encouraged to use the dedicated employers' area on the NYPF website.

An online portal to enable monthly data returns is being rolled out which removes the need for an annual year end return ensuring accurate data is received promptly.

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 pension benefit estimates. 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 2021 there were 31,816 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 Processes team.

## 2.5 Electronic Annual Benefit Statements

Active and deferred Scheme members can view their Annual Benefit Statements online. The majority, representing 98% of all statements, are delivered in this way with only 1,682 being posted to members in 2020/21.

## 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.

In accordance with the requirements of the Pensions Regulator the NYPF completed a data quality assessment and scoring exercise resulting in data scores of:

Common Data: 97.52%
Conditional Data: 94.95%

Common data is the set of data that is defined as necessary and applicable to all members of all schemes. This data is required to identify Scheme members and includes surname, date of birth, National Insurance number and address. The Pensions Regulator has identified 10 Common data items.

Conditional data is the set of data that is defined as additional detailed data required for the administration of a pension scheme. This data is dependent on scheme type, structure and system design. For example, employer, salary history, contributions, transfer in details, etc.

A data improvement plan has been developed to ensure the continued improvement of the data quality.

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 7).

### (b) Investment Management arrangements

As at 31 March 2021 the following investment management arrangements were in place:

- Baillie Gifford managed an active global (i.e. including UK) equity portfolio, namely Long Term Global Growth (LTGG). This portfolio is in the form of a pooled vehicle, rather than being invested in segregated holdings. It is managed without reference to a benchmark, however the FTSE All World index is used for performance measurement purposes
- BCPP managed a UK Equities portfolio through a pooled vehicle against the FTSE All Share Index
- BCPP managed a global equities portfolio in the form of a pooled vehicle against the MSCI All Countries World 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
- Newton managed a Diversified Growth Fund portfolio during the year through the Real Return (RR) pooled fund, with the objective of significantly outperforming the cash benchmark
- Veritas and Dodge and Cox managed active global equity portfolios in the form of a pooled vehicle against the MSCI All Country World index
- Arcmont 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
- Leadenhall managed three pooled Insurance Linked Security portfolios, all have an objective to significantly outperform against Money Market Fund returns
- The Fund held a cash investment with NYCC Treasury Management.
- BCPP managed an Infrastructure portfolio in a pooled fund that has the objective to outperform a long term absolute benchmark
- LGIM managed an equity protection strategy against a proportion of the Fund's global equity holdings.
- BCPP managed an active Gilts portfolio through a pooled vehicle against the FTSE UK Index Linked Gilts over 15 Years Index
- BCPP managed an active UK corporate bonds portfolio through a pooled vehicle against the iboxx Sterling Non-Gilts Index
- BCPP managed a private debt portfolio through a pooled vehicle that has the objective to outperform against a long term absolute benchmark
- PIMCO managed an active global bonds portfolio through a pooled vehicle 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 2021 was as follows:

| | % |
|---|---|
| Equities | 50 |
| Alternatives | 22.5 |
| Bonds | 22.5 |

### (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 with 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 appropriate limits of risk.

Performance for the year was +0.2% compared to the benchmark return of -1.5%.

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

| Periodic Performance | 1 Year | 5 Years (p.a.) |
|---|---|---|
| North Yorkshire Pension Fund | 27.1% | 13.1% |
| Benchmark | +17.0% | +7.1% |
| Performance against benchmark | +20.0% | -3.9% |

The performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2021 compared with their defined benchmarks is shown in the following table:

| Fund Manager | Share of Fund as at 31st March 2021 | | Share of Fund as 31st March 2020 | | Fund Performance | Customised Benchmark | +/- |
|---|---|---|---|---|---|---|---|
| | £000 | % | £000 | % | % | % | % |
| **Investments managed by Border to Coast Pension Partnership:** | | | | | | | |
| BCPP - Global Equity Alpha | 1,208,259 | 26.8 | 813,510 | 23.0 | | | |
| BCPP - UK Equities | 172,881 | 3.8 | 120,164 | 3.4 | | | |
| BCPP - Index Linked Gilt Fund | 141,521 | 3.1 | 0 | 0.0 | | | |
| BCPP - Investment Grade Credit | 114,983 | 2.5 | 0 | 0.0 | | | |
| BCPP - Infrastructure 1A | 9,223 | 0.2 | 8,549 | 0.2 | | | |
| BCPP - Private Debt | 5,332 | 0.1 | 0 | 0.0 | | | |
| BCPP - Infrastructure 1B | 4,418 | 0.1 | 0 | 0.0 | | | |
| BCPP - UK Unquoted Equities | 1,182 | 0.0 | 833 | 0.0 | | | |
| | 1,657,799 | 36.6 | 943,056 | 26.6 | | | |
| **Investments managed outside of Border to Coast Pension Partnership:** | | | | | | | |
| Baillie Gifford & Co. - LTGG | 761,048 | 16.8 | 595,897 | 16.8 | | -6.2 | |
| M&G Investments | 341,823 | 7.6 | 473,067 | 13.4 | | 4.2 | |
| Veritas | 273,800 | 6.1 | 216,499 | 6.1 | | -6.2 | |
| Dodge & Cox | 260,688 | 5.8 | 169,549 | 4.8 | | -6.2 | |
| PIMCO | 192,755 | 4.3 | 0 | 0.0 | | | |
| LGIM Equity Protection | 192,738 | 4.3 | 313,901 | 8.9 | | | |
| Threadneedle | 173,158 | 3.8 | 170,226 | 4.8 | | | |
| Newton Investments | 170,503 | 3.8 | 142,871 | 4.0 | | 0.7 | |
| NYCC Treasury Management | 100,184 | 2.2 | 133,832 | 3.8 | | 0.7 | |
| Legal & General | 72,281 | 1.6 | 70,474 | 2.0 | | - | |
| Leadenhall Remote Fund | 57,898 | 1.3 | 55,491 | 1.6 | | 0.7 | |
| Leadenhall Diversified Fund | 55,174 | 1.2 | 54,266 | 1.5 | | 0.7 | |
| Permira | 52,008 | 1.2 | 57,539 | 1.6 | | 6.0 | |
| Leadenhall NAT CAT Fund | 51,222 | 1.1 | 53,767 | 1.5 | | 0.7 | |
| Arcmont (formerly Bluebay) | 43,368 | 1.0 | 39,319 | 1.1 | | 6.0 | |
| Hermes | 35,015 | 0.8 | 35,993 | 1.0 | | 0.1 | |
| Fidelity International | 2,421 | 0.1 | 2,719 | 0.1 | | | |
| UK Equity Transition | 2 | 0.0 | 0 | 0.0 | | | |
| Standard Life Investments - Equities | 0 | 0.0 | 25 | 0.0 | | | |
| Internally Managed (cash and net debtors) | 16,228 | 0.4 | 13,044 | 0.4 | | | |
| | 2,852,314 | 63.4 | 2,598,479 | 73.4 | | | |
| **Total Fund** | **4,510,113** | **100.0** | **3,541,535** | **100.0** | | **-1.5** | |





Please note that full year performance figures are not yet available for investments managed by Border to Coast Pension Partnership and LGIM Equity Protection.

**(b) Analysis of Accounts**

The Statement of Accounts for the year 2020/21 is shown at Appendix A.

The value of the Fund's assets at 31 March 2020 was £3,542m, and this increased by £969m during the year to give a value of £4,511m at 31 March 2021.

**Analysis of Fund Account over three years to 2020/21**

| | 2020/21 | 2019/20 | 2018/19 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Net additions/(withdrawals) from dealings with members | 10,518 | -6,725 | 4,058 |
| Net investment return | -24,036 | -9,792 | -7,867 |
| Change in market value of investments | 982,096 | -17,152 | 250,447 |
| **Net increase/(decrease) in the Fund** | **968,578** | **-33,669** | **246,638** |

**Analysis of Net Asset Statement over three years to 2020/21**

| | 2020/21 | 2019/20 | 2018/19 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Fixed Interest Securities | 33,768,242 | 468,984 | 639,513 |
| Equities | 1,182 | 833 | 394,926 |
| Pooled Funds | 3,767,819 | 2,641,322 | 2,016,885 |
| Pooled Property | 279,864 | 276,103 | 288,502 |
| Cash Deposits | 105,209 | 138,523 | 220,042 |
| Other | 2,129 | 2,727 | 4,136 |
| **Total Investment Assets** | **4,493,885** | **3,528,492** | **3,564,004** |
| Long-Term Debtors | 203 | 42 | - |
| Current Assets and Current Liabilities | 16,025 | 13,001 | 11,200 |
| **Net Assets of the Fund** | **4,510,113** | **3,541,535** | **3,575,204** |

## 3.3 Voting Arrangements

The Committee delegated the exercise of voting rights to Pension Investment Research Consultants Limited (PIRC) for all directly owned shares until September 2019 when all equity investments were made through pooled investments. All voting rights are now delegated to the Fund's investment managers. Votes are executed according to predetermined Shareholder Voting Guidelines agreed by the PFC. These guidelines are aligned to the UK Stewardship Code and to best practice in other jurisdictions. The Fund monitors voting decisions on a regular basis and a summary of the voting activity in 2020/21 is provided in the table below:

| | | | | | |
|---|---|---|---|---|---|
| In Favour | 5,609 | Against | 1,315 | Abstained/Withheld | 309 |

# Part 4 – Asset Pooling

## Background

In 2015 the Government issued the 'LGPS: Investment Reform Criteria and Guidance' which set out its intention to work with the 89 Administering Authorities in the Local Government Pension Scheme (LGPS) to establish asset pooling arrangements with the following objectives to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money, and
- An improved capacity and capability to invest in infrastructure

This has led to the creation of eight asset pools, significantly changing the approach to investing. These regulatory changes do not however affect the responsibility for determining the investment strategy which remains with individual Funds.

## NYPF Pooling Arrangements

In order to satisfy the requirements of the guidance issued by the Government, the Fund has become a shareholder of the Border to Coast Pensions Partnership ("BCPP", or "the Pool"). BCPP is an FCA-regulated Operator and Alternative Investment Fund Manager (AIFM), that became operational in July 2018.

The Administering Authorities of the LGPS Funds that are participating in the pool are a combination of "like-minded" UK-based local government Unitary Authorities, Non-Metropolitan County Councils and Metropolitan District Councils with total assets of around £50bn. 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 |
| 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 |





The core principles of BCPP include the following:

- One Fund one vote – so regardless of Fund size, all Funds will be treated equally
- Equitable cost sharing
- Funds retain governance role and ownership of asset allocation
- Generation of improved net-of-fees risk adjusted performance

## Border to Coast Pensions Partnership

BCPP is responsible for designing, delivering and operating a range of investment funds and services to allow Partner Funds, BCPP's shareholders and only customers, to implement their investment strategies. BCPP develops a range of internally and externally managed investments across a range of asset classes in both public and private markets. The team of 77 employees are based in Leeds.

## Governance

The Fund will hold BCPP Ltd to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of BCPP. The performance of the pool company is overseen by the shareholder representatives from each Authority on an ongoing basis and formally once a year at the BCPP AGM.
- A representative on the Joint Committee which, as an investor, will monitor and oversee the investment operations of BCPP. The Chair of each of the Funds' Pension Fund Committees sit on the Joint Committee. There is also a non-voting scheme member representative that sits on the Joint Committee, who is nominated by the Funds' Local Pension Boards.
- Officer support to the representatives above from the Officer Operations Group and the Statutory Officer Group. Day to day oversight will be provided by these officer groups.

## Pooling Costs

The Fund has incurred both set-up costs and ongoing costs since the inception of BCPP and these are detailed in the tables below.

| | 2020/21 | 2019/20 | 2018/19 | Cumulative Since Inception |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Set-up costs** | | | | |
| Recruitment | | | 2.7 | 17.1 |
| Legal | | | 4.2 | 26.6 |
| Procurement | | | 5.7 | 36.2 |
| Other support (e.g. IT, Accommodation) | | | 0.3 | 2.0 |
| Other working capital | 348.5 | | 833.3 | 1,181.8 |
| Staff costs | | | 9.7 | 61.9 |
| Other costs | 191.5 | 357.6 | 443.9 | 1,027.8 |
| **Total Set-up Costs** | **540.0** | **357.6** | **1,299.8** | **2,353.4** |

| | 2020/21 £000 | 2019/20 £000 | 2018/19 £000 | Cumulative Since Inception £000 |
|---|---|---|---|---|
| **Transition Costs** | | | | |
| Transition fees | | 259.0 | | 259.0 |
| Taxation (seeding relief) | | 1,143.4 | | 1,143.4 |
| Other transition costs | | 1,254.7 | | 1,254.7 |
| **Total Transition Costs** | 0.0 | 2,657.1 | 0.0 | 2,657.1 |

During 2020/21 there were three transfers to BCPP's fixed income funds and there were no explicit costs incurred. At this early stage no savings have yet been realised. These savings are expected to be realised in the longer term. The set-up and transition into the different sub-funds is expected to involve several years of upfront costs before savings can be achieved. In the July 2016 submission to MHCLG it was estimated that the pool overall would recover its costs and start to achieve savings within two to five years.

BCPP is taking a phased approach to the launch of its investment funds. It is therefore expected that the transitioning of the Fund's assets will continue over a number of years. In 2021/22 transitions are expected to take place into BCPP's fixed income investments and Listed Alternatives.

## Ongoing costs

In addition to the set up costs above there are also ongoing costs that have been incurred in 2020/21. The table below compares costs within and outside of the pool:

| | Asset Pool £000 | Non-asset Pool £000 | Fund Total £000 |
|---|---|---|---|
| **Management fees** | | | |
| - Ad valorem | 4,186 | 11,720 | **15,906** |
| - Performance | | 2,417 | **2,417** |
| Transaction costs | 1782 | 3,649 | **5,431** |
| Other costs | 1157 | 3,878 | **5,035** |
| **Total** | **7,125** | **21,664** | **28,789** |





# Part 5 – Pension Administration Activity

The number of staff (in FTE terms) at the Council involved in pension administration was 30.77 completing an average of 3,376 cases each. The ratio of members to full time equivalent staff is 3,305:1. The NYPF has a net operating cost of £15.24 per member whilst the average operating cost for all authorities was £30.25 as calculated by the annual CIPFA benchmarking exercise.

### (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 2021 is shown here:

| Performance Indicator | LGPC Target | Achieved (%) |
|---|---|---|
| Letter detailing transfer in quote | 10 days | 94.90 |
| Letter detailing transfer out quote | 10 days | 92.11 |
| Process and pay refund | 5 days | 94.12 |
| Letter notifying estimate of retirement benefits | 10 days | 93.98 |
| Letter notifying actual retirement benefits | 5 days | 86.23 |
| Process and pay lump sum retirement grant | 5 days | 86.23 |
| Initial letter acknowledging death of active/deferred/pensioner member | 5 days | 31.97 |
| Letter notifying amount of dependant's benefits | 5 days | 31.97 |
| Calculate and notify deferred benefits | 10 days | 79.03 |

For the year ending 31 March 2021, 93% of customers surveyed ranked the service provided by the NYPF as good or excellent.

### (b) Benefit Calculation Activity

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

| Task | Number |
|---|---|
| Retirements | 4,685 |
| Transfers In | 271 |
| Refunds | 936 |
| Frozen Refunds | 656 |
| Preserved Benefits | 1,936 |
| AVCs/ARCs | 0 |
| Divorce cases | 202 |
| Deaths in Service | 34 |
| Deaths of Pensioners | 681 |

**(c) Administration**

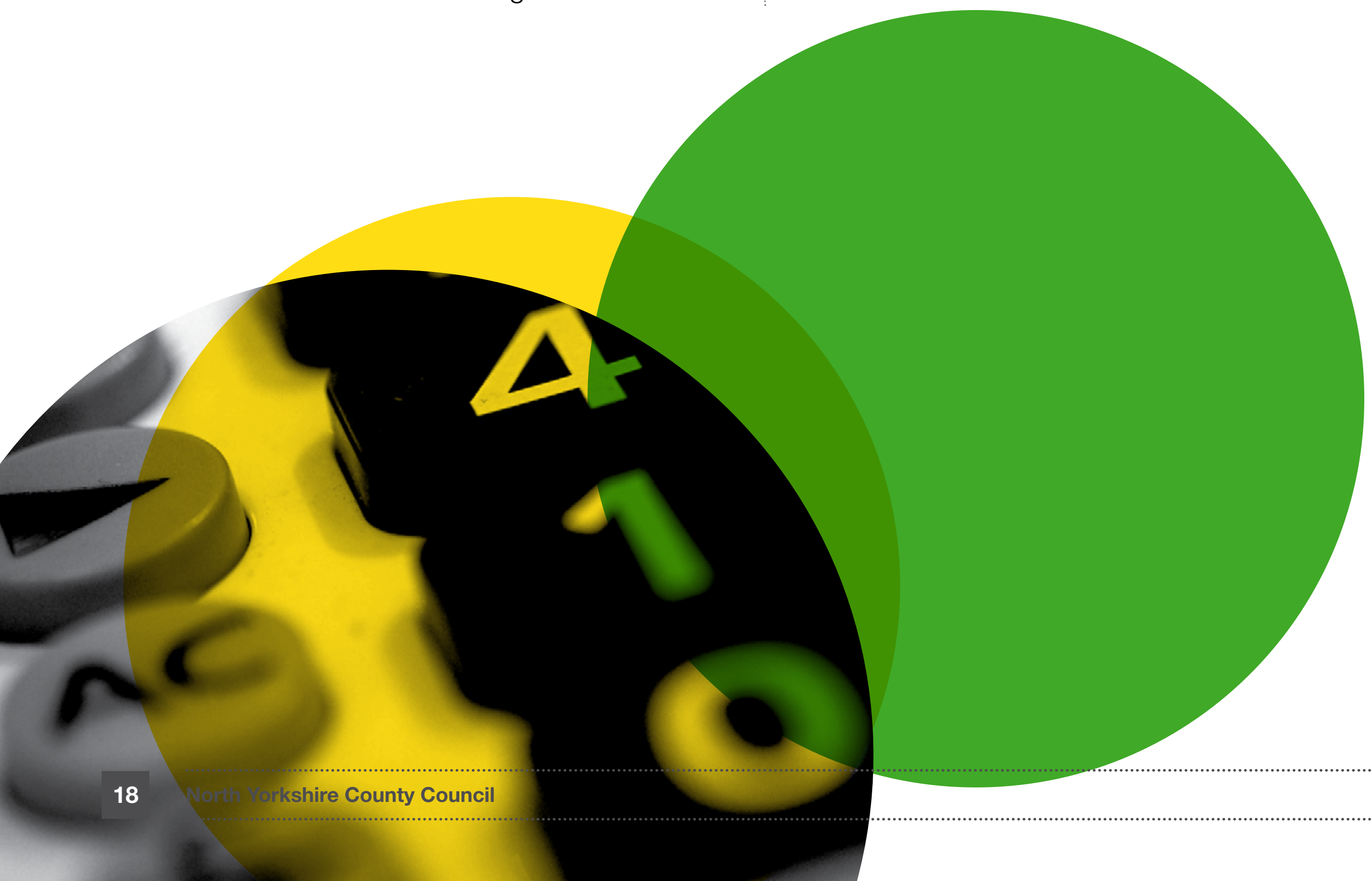
The total numbers of joiners and leavers during 2020/21 were:

| | |
|---|---|
| Joining | 8,246 |
| Retiring | |
| Incapacity | 38 |
| Normal Retirement Date (NRD) | 157 |
| Pre NRD | 609 |
| Post NRD | 653 |
| Redundancy/Efficiency | 80 |
| Flexible | 42 |
| Deaths | 777 |
| Other Leavers | 6,389 |

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 2020/21 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 promoting the use of the benefit calculators available online via member self-service
- 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 guidance and support to all employers
- Dedicated newsletter for retired members
- Roll out of online employer portal for monthly data collection

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 numbers reported elsewhere.







# Part 6 – Membership, Contributions and Scheme Benefits

## 6.1 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, uniformed 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 the NYPF over the past 5 years:

| Membership Type | 31 March 2017 | 31 March 2018 | 31 March 2019 | 31 March 2020 | 31 March 2021 |
|---|---|---|---|---|---|
| Current contributors | 33,559 | 33,110 | 33,462 | 33,403 | 33,640 |
| Deferred pensions | 33,147 | 35,799 | 37,207 | 38,848 | 38,836 |
| Pensioners receiving benefits | 20,441 | 21,462 | 22,724 | 24,181 | 25,419 |
| Undecided leavers | | | | 1,959 | 3,813 |

## 6.2 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 7).

The total contributions received for 2020/21 on an accruals basis were £133m, and NYCC being the main employer in the Fund contributed £57.9m. Employer contributions are set every three years by the Actuary as part of the Triennial Valuation. The last Triennial Valuation took place as at 31 March 2019, at which the funding level of the Fund was reported as 114% (90% as at 31 March 2016) by the actuary.

Details of the employer contribution rates can be seen in the latest Valuation Report by following this link:
www.nypf.org.uk/Documents/Actuarial%20valuation%20report%202019.pdf

## 6.3 Employer Analysis

At 31 March 2021 there were 129 contributing employer organisations within NYPF including the County Council. Full details of all employers can be found in the Statement of Accounts (see Part 7).
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 | 86 | 0 | 86 |
| Admitted Body | 48 | 5 | 43 |
| **Total** | **134** | **5** | **129** |

## 6.4 Member Rates

For member contributions a banded structure has been in place since April 2008 linked to the rate of pensionable pay a member receives. The band ranges were updated in April 2019 as follows:

| Band | Range | Contribution rate |
|---|---|---|
| 1 | £0 to £14,400 | 5.5% |
| 2 | £14,401 to £22,500 | 5.8% |
| 3 | £22,501 to £36,500 | 6.5% |
| 4 | £36,501 to £46,200 | 6.8% |
| 5 | £46,201 to £64,600 | 8.5% |
| 6 | £64,601 to £91,500 | 9.9% |
| 7 | £91,501 to £107,700 | 10.5% |
| 8 | £107,701 to £161,500 | 11.4% |
| 9 | £161,501 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 2019 Valuation are shown at www.nypf.org.uk/Documents/Actuarial%20valuation%20report%202019.pdf

## 6.5 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 gainful employment before their Normal Pension Age.

### 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 or deterioration 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 PFC has appointed Prudential as the nominated provider for this purpose. Further details are available from the Prudential on 0345 600 0343. Lines are open Monday - Friday, 8.30am - 6.00pm.





# Part 7 – Governance Documentation

The main governance documentation is as follows:

- Investment Strategy Statement link is www.nypf.org.uk/Documents/Investment%20Strategy%20Statement_v3.0_July%202021.pdf
- Governance Compliance Statement link is www.nypf.org.uk/Documents/Governance%20Compliance%20Statement_v1.4_April%202021.pdf
- Funding Strategy Statement link is www.nypf.org.uk/Documents/FSS_%20Aug%202020.pdf
- Communications Policy link is www.nypf.org.uk/Documents/Atch%206%20-%20Comms%20Policy_v1.3_April%202021.doc.pdf
- Pension Administration Strategy link is www.nypf.org.uk/Documents/Atch%201%20-%20Admin%20Strategy_v1.3_April%202021.pdf
- Employer Charging Policy link is www.nypf.org.uk/Documents/Atch%205%20-%20Charging%20Policy_v1.3_April%202021.pdf

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

A short summary of each document is included here. The full documents 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 2019 actuarial valuation

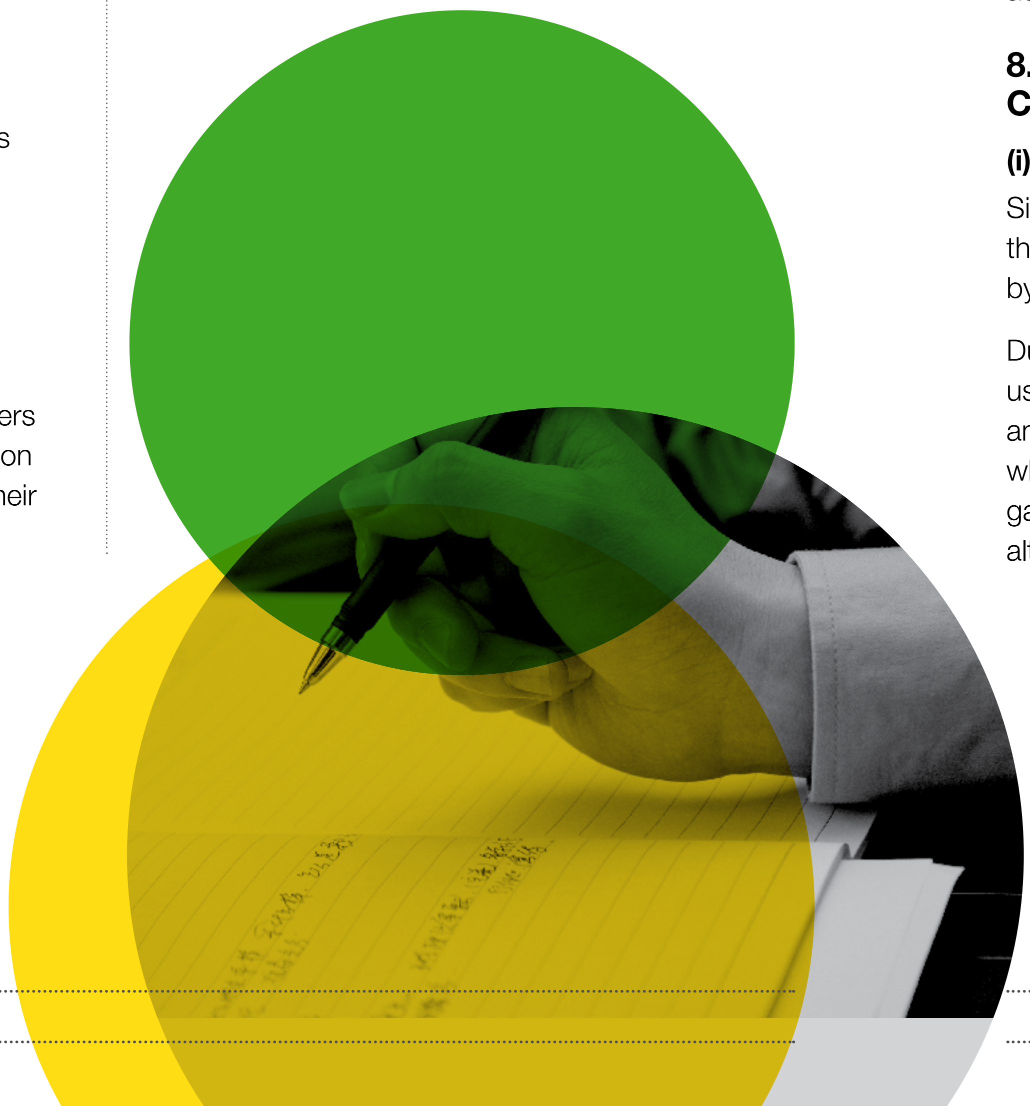
**(d) Communications Policy**

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, communications and charging policy.

NYPF'S Local Pension Board is responsible for assisting the Fund in securing compliance with the regulations, and to ensure the efficient and effective governance and administration of the LGPS. The Pension Board therefore has an oversight role in the governance of the Fund. The Board produces its own Annual Report each year that details its roles and responsibilities and activities over the year. This can be found on the NYPF website at https://www.nypf.org.uk/Documents/Pension%20Board%20-%20Annual%20Report%202018-19.pdf







# Part 8 – Training

## 8.1 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.

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

**(i) Internally Provided**

Six Investment Strategy workshops 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 2020/21 were:

| Event | Place | Date |
|---|---|---|
| BCPP Conference | virtual | 2 Oct 2020 |
| PLSA Conference | virtual | 12 - 16 Oct 2020 |

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 appendix to the pensions administration report in the link below: https://edemocracy.northyorks.gov.uk/documents/s7285/Appendix%206%20-%20Member%20Training%20Log.docx.pdf

# Part 9 – 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 Scheme.

**Admitted Body:**
An organisation who has entered into a service agreement with a Scheme employer. The parties and NYCC (as the Administering Authority) enter into an admission agreement to allow the staff who transferred to the new organisation to participate in the LGPS.

**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.

**Money Helper**
Since the Money and Pensions Service (MaPS) was formed in 2019, it has operated three legacy consumer facing brands: the Money Advice Service, The Pensions Advisory Service and Pension Wise.

MaPS was created as a single body to bring together financial guidance services and content, making it easier for customers to find what they are looking for in one joined-up service.

Consolidating three brands into one means a better and enhanced consumer experience can be provided – a single source of information and guidance where information can easily be found in one place.

**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

**Money Helper**
Telephone: **01159 659570**
Email: contact@maps.org.uk
Website: moneyhelper.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 2021 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 31st March 2021

| 2019/20 £000 | CONTRIBUTIONS AND BENEFITS | | 2020/21 £000 | 2020/21 £000 |
|---|---|---|---|---|
| | **Contributions** | | | |
| 82,625 | Employers | - Normal | 98,843 | |
| 4,403 | | - Deficit | 1,271 | |
| 3,674 | | - Early Retirement Costs Recharged | 1,773 | |
| 29,166 | Employees | - Normal | 31,095 | |
| 148 | | - Additional Voluntary | 100 | |
| 120,016 | **Total Contributions Receivable (note 7)** | | | 133,082 |
| 17,490 | **Transfers in (note 8)** | | | 10,575 |
| | **Less** | | | |
| | **Benefits** | | | |
| (91,010) | Pensions | | (95,946) | |
| (25,990) | Commutation and Lump Sum Retirement Benefits | | (22,293) | |
| (2,670) | Lump Sums Death Benefits | | (3,322) | |
| (119,670) | **Total Benefits Payable (note 9)** | | | (121,561) |
| | **Leavers** | | | |
| (560) | Refunds to Members Leaving Service | | (387) | |
| (21,037) | Transfers Out | | (7,992) | |
| (21,597) | **Total Payments on Account of Leavers (note 10)** | | | (8,379) |
| (2,964) | **Management Expenses (note 11)** | | | (3,199) |
| (6,725) | **Net additions/ (withdrawals) from dealings with Members** | | | 10,518 |
| | **RETURNS ON INVESTMENTS** | | | |
| 16,554 | Investment income (note 12) | | | 4,213 |
| (113) | Taxation (note 12a) | | | 0 |
| (26,233) | Investment management cost (note 11) | | | (28,249) |
| (17,152) | Change in market value of investments (note 14a) | | | 982,096 |
| (26,944) | **Net returns on investments** | | | 958,060 |
| (33,669) | **Net increase/ (decrease) in the Fund during the year** | | | 968,578 |
| 3,575,204 | **Opening Net Assets of the Fund** | | | 3,541,535 |
| 3,541,535 | **Closing Net Assets of the Fund** | | | 4,510,113 |

## North Yorkshire Pension Fund
## Net Assets Statement

| 31st March 2020 £000 | INVESTMENT ASSETS | 31st March 2021 £000 |
|---|---|---|
| 468,984 | Fixed Interest Securities | 337,682 |
| 833 | Equities | 1,182 |
| 2,641,322 | Pooled Investments | 3,767,819 |
| 276,103 | Pooled Property Investments | 279,864 |
| 3,387,242 | | 4,386,547 |
| 138,523 | Cash Deposits | 105,209 |
| 2,727 | Investment Debtors | 2,129 |
| 3,528,492 | TOTAL INVESTMENT ASSETS | 4,493,885 |
| | INVESTMENT LIABILITIES | |
| 0 | TOTAL INVESTMENT LIABILITIES | 0 |
| **3,528,492** | **NET INVESTMENT ASSETS (note 14a)** | **4,493,885** |
| 42 | LONG-TERM DEBTORS | 203 |
| | CURRENT ASSETS | |
| 9,170 | Contributions due from employers | 10,791 |
| 2,264 | Other Non-Investment Debtors | 1,288 |
| 4,969 | Cash | 11,494 |
| 16,403 | TOTAL CURRENT ASSETS | 23,573 |
| | CURRENT LIABILITIES | |
| (3,402) | Non-Investment Creditors | (7,548) |
| (3,402) | TOTAL CURRENT LIABILITIES | (7,548) |
| **3,541,535** | **TOTAL NET ASSETS (note 14c)** | **4,510,113** |

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 31st March 2021

### 1. Description of the Fund

The North Yorkshire Pension Fund (NYPF or "the Fund") 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 2020/21 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 Fund 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 Fund, remain in the Fund or make their own personal arrangements outside the Scheme.

Organisations participating in NYPF include:

- scheduled bodies, which are local authorities, academy trusts 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 2021 there were 129 contributing employer organisations within NYPF including the County Council itself, and over 97,000 individual members, as detailed on the next pages.

| 86 Scheduled Bodies including 44 Academies | |
|---|---|
| Ainsty 2008 Internal Drainage Board | North Yorkshire Police and Crime Commissioner |
| Askham Bryan College | Northallerton & Romanby Joint Burial Board |
| Chief Constable (North Yorkshire Police) | Northallerton Town Council |
| City of York Council | Norton on Derwent Town Council |
| Craven College | Pickering Town Council |
| Craven District Council | Richmond Town Council |
| Easingwold Town Council | Richmondshire District Council |
| Filey Town Council | Ripon City Council |
| Foss 2008 Internal Drainage Board | Ryedale District Council |
| Fulford Parish Council | Scarborough Borough Council |
| Glusburn Parish Council | Scarborough Sixth Form College |
| Great Ayton Parish Council | Selby College |
| Hambleton District Council | Selby District Council |
| Harrogate Borough Council | Selby Town Council |
| Haxby Town Council | Skipton Town Council |
| Hunmanby Parish Council | Sutton in Craven Parish Council |
| Knaresborough Town Council | Tadcaster Town Council |
| Malton Town Council | Vale of Pickering Internal Drainage Board |
| North York Moors National Park Authority | Whitby Town Council |
| North Yorkshire County Council | York College |
| North Yorkshire Fire & Rescue | Yorkshire Dales National Park Authority |





| Academy Trusts | |
|---|---|
| Areté Learning Trust - Northallerton School & Sixth Form College | Norton College |
| Areté Learning Trust - Richmond School & Sixth Form College | Outwood Grange Academies Trust |
| Areté Learning Trust - Stokesley School & Sixth Form College | Pathfinder Multi Academy Trust |
| Bishop Wheeler Catholic Academy Trust | Red Kite Learning Trust |
| Dales Academies Trust | Rodillian Multi Academy Trust - Brayton |
| David Ross Education Trust – Thomas Hinderwell Primary Academy | Rossett School |
| Ebor Academy Trust | Ryedale Learning Trust |
| Elevate Multi Academy Trust | Scalby Learning Trust - Friarage Community Primary School |
| Enquire Learning Trust - East Whitby Primary Academy | Scalby Learning Trust - Newby & Scalby Primary School |
| Enquire Learning Trust - Roseberry Primary Academy | Scalby Learning Trust - Scalby School |
| Enquire Learning Trust - Stakesby Primary Academy | Scarborough University Technical College |
| Enquire Learning Trust - Stokesley Primary Academy | Selby Educational Trust |
| Elevate Multi Academy Trust | South Bank Multi Academy Trust |
| Enquire Learning Trust - East Whitby Primary Academy | South Craven Academy Trust |
| Enquire Learning Trust - Roseberry Primary Academy | South York Multi Academy Trust |
| Enquire Learning Trust - Stakesby Primary Academy | St Margaret Clitherow Catholic Academy Trust |
| Enquire Learning Trust - Stokesley Primary Academy | STAR Multi Academy Trust |
| Great Smeaton Primary Academy | The Bishop Konstant Catholic Academy Trust |
| Hope Learning Trust | The Woodlands Academy |
| Huntington Primary Academy | Wellspring Academy Trust |
| Lingfield Education Trust – Cambrai Primary School | Yorkshire Causeway Schools Trust |
| Moorlands Learning Trust | Yorkshire Collaborative Academy Trust |
| Nicholas Postgate Catholic Academy Trust – All Saints School | Yorkshire Endeavour Academy Trust |
| Northern Star Academies Trust | |

| 43 Admitted Bodies | |
|---|---|
| ABM Catering Ltd | Independent Cleaning Services |
| Absolutely Catering Ltd | ISS Mediclean Ltd |
| Align Property Partners Ltd | Lifeways Community Care Ltd |
| Aramark Ltd | Make It York |
| Betterclean Services Ltd | Mellors |
| Beyond Housing | RCCN Ltd |
| Bulloughs Cleaning Ltd | Richmondshire Leisure Trust |
| Cater Link Ltd | Ringway |
| Catering Academy Ltd | Sanctuary Housing Association |
| Chartwells Compass | Springfield Home Care |
| Churchill Contract Services Ltd | Streamline Taxis |
| Churchill Security Solutions Ltd | University of Hull (Scarborough) |
| City of York Trading Ltd | Urbaser Ltd |
| Elite | Veritau Ltd |
| Everyone Active (SLM Scarborough) | Veritau North Yorkshire Ltd |
| Explore York Libraries and Archives | Welcome to Yorkshire |
| Gough and Kelly Security Ltd | Wigan Leisure and Culture Trust |
| Greenwich Leisure Ltd | York Archaeological Trust Ltd |
| Grosvenor Facilities Management | York Mind |
| Hexagon Care | York Museums and Galleries Trust |
| Human Support Group Ltd | York St John University |
| Hutchison Catering Ltd | |

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

| | 31st March 2021 | 31st March 2020 |
|---|---|---|
| **Number of Employers with Active Members** | 129 | 157 |
| **Employees in the Fund** | | |
| NYCC | 15,968 | 16,331 |
| Other employers | 17,672 | 17,072 |
| Total | 33,640 | 33,403 |
| **Pensioners** | | |
| NYCC | 13,839 | 13,165 |
| Other employers | 11,580 | 11,016 |
| Total | 25,419 | 24,181 |
| **Deferred Pensioners** | | |
| NYCC | 24,271 | 24,278 |
| Other employers | 14,565 | 14,570 |
| Total | 38,836 | 38,848 |

### (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 2021. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019 and that set the contribution rates for 2020/21, 2021/22, 2022/23; details of the rates for individual employers are available on the Fund's website.

### (d) Benefits

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

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

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

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

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its year end position as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 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 Assets Statement as a current asset.

Changes in the net market value of investments are recognised as income/expenditure 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 not paid 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 Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

#### Administrative expenses

All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

#### Oversight and governance

All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

#### Investment management expenses

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
- Hermes Investment Management - UK Property
- Arcmont (formerly 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) Financial Assets**

The investment in the LGPS asset pool, Border to Coast Pensions Partnership (BCPP), is valued at transaction price, i.e. cost, as an appropriate estimate of fair value. All other assets are included in the Net Assets Statement on a fair value basis as at the reporting date. An asset is recognised in the Net Assets 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.

If valuations are not available at the reporting date, as is the case for private debt and infrastructure investments, the latest available valuation is adjusted for cashflows in the intervening period.

**(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 the 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 does not hold derivatives for speculative purposes (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 Assets 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 (see note 23).

**(n) Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

## 4. Critical Judgement in Applying Accounting Policies

### 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.

### Investment in Border to Coast Pensions Partnership (BCPP)

The Fund's shareholding in BCPP Ltd. has been valued at transaction price i.e. cost, as an appropriate estimate of fair value. Management have made this judgement because a fair value cannot be otherwise established for these assets as at 31 March 2021, and as the pool has only been established for a short period of time and there is no market in the shares held, cost would be a reasonable and appropriate estimate of fair value. The Class A share is valued at £1 and reflects the ownership stake in the company, whilst the Class B shares represent the Fund's contribution to the company's regulatory capital requirement.

## 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 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 2021 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% (£86.1m), a 0.1% increase in inflation would increase liabilities by 1.8% (£79.2m), and an increase in life expectancy of one year would increase liabilities by 3.7% (£161.9m).

## 6. Events After the End of the Reporting Period

The financial statements and notes have not been adjusted for any events taking place after 31 March 2021.

## 7. Contributions Receivable

| By category | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| **Employees' Contributions** | 31,195 | 29,314 |
| **Employers' Contributions** | | |
| Normal contributions | 98,843 | 82,625 |
| Deficit recovery contributions | 1,271 | 4,403 |
| Early Retirement Recharges | 1,541 | 3,429 |
| Compensatory Added Years Recharges | 232 | 245 |
| **Total Contributions** | 133,082 | 120,016 |

| By authority | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| **Contributions Receivable** | | |
| North Yorkshire County Council | 57,935 | 48,200 |
| Other Scheduled Bodies | 68,397 | 64,790 |
| Admitted Bodies | 6,750 | 7,026 |
| | 133,082 | 120,016 |

## 8. Transfers In from Other Pension Funds

All transfers in were individual transfers.
There were no group transfers during the year.

## 9. Benefits Payable

| | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| **Benefits Payable** | | |
| North Yorkshire County Council | 50,976 | 50,401 |
| Other Scheduled Bodies | 62,290 | 60,859 |
| Admitted Bodies | 8,295 | 8,410 |
| | 121,561 | 119,670 |





## 10. Payments To and On Account of Leavers

| | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| **Leavers** | | |
| Refunds to Members Leaving Service | 387 | 560 |
| Individual Transfers | 7,992 | 14,239 |
| Group Transfers | 0 | 6,798 |
| | 8,379 | 21,597 |

## 11. Management Expenses

| | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| Administrative Costs | 1,918 | 1,571 |
| Investment Management Costs | 28,249 | 26,233 |
| Oversight and Governance Costs | 1,281 | 1,393 |
| | 31,448 | 29,197 |

Investment Management Costs includes £2,417k (2019/20: £2,547k) in respect of performance related fees payable to the Fund's investment managers and £5,431k in respect of transaction costs (2019/20 £6,719k).

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).

### a) Investment Management Expenses

| | 2020/21 | 2019/20 |
|---|---|---|
| | £000 | £000 |
| Management Fees | 15,385 | 12,563 |
| Performance Related Fees | 2,417 | 2,547 |
| Custody Fees | 340 | 329 |
| Transactions Costs | 5,431 | 6,719 |
| Other | 4,205 | 4,075 |
| | 27,778 | 26,233 |

## 12. Investment Income

| | 2020/21 | 2019/20 |
|---|---|---|
| | £000 | £000 |
| Income from Bonds | 2,001 | 1,538 |
| Income from Equities | 0 | 5,209 |
| Pooled Property Investments | 1,404 | 1,177 |
| Pooled Investments - Other Managed Funds | 1,024 | 5,136 |
| Interest on Cash Deposits | 0 | 3,061 |
| Other | (216) | 433 |
| | 4,213 | 16,554 |

### a) Taxes on Income

| | 2020/21 | 2019/20 |
|---|---|---|
| | £000 | £000 |
| Withholding Tax on Dividends | 0 | 113 |

## 13. Other Fund Account Disclosures

| | 2020/21 | 2019/20 |
|---|---|---|
| | £000 | £000 |
| Payable in respect of external audit | 19 | 19 |

## 14. Investments

### a) Reconciliation of Movements in Investments

| | Value as at 31st March 2021 | Change in market value | Sale proceeds receipts | Purchases as at cost payments | Value as at 1st April 2020 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Fixed Interest Securities | 337,682 | 15,681 | (1,134,253) | 987,270 | 468,984 |
| Equities | 1,182 | (88) | 88 | 349 | 833 |
| Pooled Investments | 3,767,819 | 957,840 | (322,476) | 491,133 | 2,641,322 |
| Pooled Property | 279,864 | 8,094 | (4,333) | 0 | 276,103 |
| Total Invested | 4,386,547 | 981,527 | (1,460,974) | 1,478,752 | 3,387,242 |
| Cash Deposits | 105,209 | 569 | | | 138,523 |
| Net Investment Debtors | 2,129 | | | | 2,727 |
| Net Investment Assets | 4,493,885 | 982,096 | | | 3,528,492 |

| | Value as at 31st March 2020 | Change in market value | Sale proceeds & derivative receipts | Purchases as at cost and derivative payments | Value as at 1st April 2019 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Fixed Interest Securities | 468,984 | 24,370 | (1,624,338) | 1,429,439 | 639,513 |
| Equities | 833 | 21,840 | (779,948) | 364,015 | 394,926 |
| Pooled Funds | 2,641,322 | (55,934) | (772,116) | 1,452,487 | 2,016,885 |
| Pooled Property | 276,103 | (8,745) | (3,654) | 0 | 288,502 |
| Total Invested | 3,387,242 | (18,469) | (3,180,056) | 3,245,941 | 3,339,826 |
| Cash Deposits | 138,523 | 1,317 | | | 220,042 |
| Net Investment Debtors | 2,727 | | | | 4,136 |
| Net Investment Assets | 3,528,492 | (17,152) | | | 3,564,004 |

## b) Analysis of Investments

| | 2020/21 | 2019/20 |
|---|---|---|
| | £000 | £000 |
| Fixed Interest Securities | | |
| UK Public Sector Quoted | 337,682 | 468,984 |
| Equities | | |
| UK Unquoted | 1,182 | 833 |
| | 1,182 | 833 |
| Pooled Investments | | |
| UK Equity | 377,443 | 260,448 |
| UK Property | 279,864 | 276,103 |
| UK Government Bonds | 114,983 | 0 |
| UK Corporate Bonds | 141,521 | 0 |
| Multi Asset Credit | 192,755 | 0 |
| Overseas Equity | 2,299,233 | 1,655,171 |
| Private Debt | 100,708 | 96,859 |
| Insurance Linked Securities | 164,294 | 163,524 |
| Infrastructure | 13,641 | 8,549 |
| Equity Protection | 192,738 | 313,900 |
| Diversified Growth Funds - UK | 170,503 | 142,871 |
| | 4,047,683 | 2,917,425 |
| Total Investments (excl Derivatives) | 4,386,547 | 3,387,242 |
| Cash Deposits | 105,209 | 138,523 |
| Net Investment Debtors | 2,129 | 2,727 |
| Net Investment Assets | 4,493,885 | 3,528,492 |



## c) Investments analysed by Fund Manager

| Investments managed by Border to Coast Pension Partnership: | 31st March 2021 | | 31st March 2020 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| BCPP - Global Equity Alpha | 1,208,259 | 26.8 | 813,510 | 23.0 |
| BCPP - UK Equities | 172,881 | 3.8 | 120,164 | 3.4 |
| BCPP - Index Linked Gilt Fund | 141,521 | 3.1 | 0 | 0.0 |
| BCPP - Investment Grade Credit | 114,983 | 2.5 | 0 | 0.0 |
| BCPP - Infrastructure | 9,223 | 0.2 | 8,549 | 0.2 |
| BCPP - Private Debt | 5,332 | 0.1 | 0 | 0.0 |
| BCPP - Infrastructure 2 | 4,418 | 0.1 | 0 | 0.0 |
| BCPP - UK Unquoted Equities | 1,182 | 0.0 | 833 | 0.0 |
| | 1,657,799 | 36.6 | 943,056 | 26.6 |

| Investments managed outside of Border to Coast Pensions Partnership: | 31st March 2021 | | 31st March 2020 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| Baillie Gifford & Co. - LTGG | 761,048 | 16.8 | 595,897 | 16.8 |
| M&G Investments | 341,823 | 7.6 | 473,067 | 13.4 |
| Veritas | 273,800 | 6.1 | 216,499 | 6.1 |
| Dodge & Cox | 260,688 | 5.8 | 169,549 | 4.8 |
| PIMCO | 192,755 | 4.3 | 0 | 0.0 |
| LGIM Equity Protection | 192,738 | 4.3 | 313,901 | 8.9 |
| Threadneedle | 173,158 | 3.8 | 170,226 | 4.8 |
| Newton Investments | 170,503 | 3.8 | 142,871 | 4.0 |
| NYCC Treasury Management | 100,184 | 2.2 | 133,832 | 3.8 |
| Legal & General | 72,281 | 1.6 | 70,474 | 2.0 |
| Leadenhall Remote Fund | 57,898 | 1.3 | 55,491 | 1.6 |
| Leadenhall Diversified Fund | 55,174 | 1.2 | 54,266 | 1.5 |
| Permira | 52,008 | 1.2 | 57,539 | 1.6 |
| Leadenhall NAT CAT Fund | 51,222 | 1.1 | 53,767 | 1.5 |
| Arcmont (formerly Bluebay) | 43,368 | 1.0 | 39,319 | 1.1 |
| Hermes | 35,015 | 0.8 | 35,993 | 1.0 |
| Fidelity International | 2,421 | 0.1 | 2,719 | 0.1 |
| UK Equity Transition | 2 | 0.0 | 0 | 0.0 |
| Standard Life Investments - Equities | 0 | 0.0 | 25 | 0.0 |
| Internally Managed (cash and net debtors) | 16,228 | 0.4 | 13,044 | 0.4 |
| | 2,852,314 | 63.4 | 2,598,479 | 73.4 |
| Total Net Assets | 4,510,113 | 100.0 | 3,541,535 | 100.0 |

The investments with BCPP Global Equity Alpha, Baillie Gifford, M&G Investments, Veritas and Dodge & Cox each represent more than 5% of net assets. These investments are in pooled funds. All other investments are either below 5% or constitute a portfolio of segregated assets.

### (d) Stock Lending

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

## 15. Analysis of Derivatives

The Fund does not hold derivatives.

## 16. 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<br>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<br>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<br>Required by 6.5.5.1 d) and f), 7.4.2.13 of the Code. |
| 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<br>Independent market research<br>Nature of tenancies<br>Covenant strength for existing tenants<br>Assumed vacancy levels<br>Estimated rental Growth<br>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<br>Revenue multiple<br>Discount for lack of marketability<br>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 2021.

| Assessed valuation range (+/-) | Value at 31 March 2021 | Value on Increase | Value on decrease |
|---|---|---|---|
| | £000 | £000 | £000 |
| Pooled investments - Private Debt | 100,708 | 105,139 | 96,277 |
| Pooled investments - Infrastructure | 13,641 | 14,678 | 12,604 |
| UK Unquoted Equities | 1,181 | 1,181 | 1,181 |
| Total | 115,530 | 120,998 | 110,062 |

### a) 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 2021 | £000 | £000 | £000 | £000 |
| Financial assets at fair value through profit and loss | 468,796 | 3,933,335 | 115,530 | 4,517,661 |
| Non-financial assets at fair value through profit and loss | 0 | 0 | 0 | 0 |
| Financial liabilities at fair value through profit and loss | (7,548) | 0 | 0 | (7,548) |
| Net investment assets | 461,248 | 3,933,335 | 115,530 | 4,510,113 |

| | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| Values at 31 March 2020 | £000 | £000 | £000 | £000 |
| Financial assets at fair value through profit and loss | 626,679 | 2,812,018 | 106,240 | 3,544,937 |
| Non-financial assets at fair value through profit and loss | 0 | 0 | 0 | 0 |
| Financial liabilities at fair value through profit and loss | (3,402) | 0 | | (3,402) |
| Net investment assets | 623,277 | 2,812,018 | 106,240 | 3,541,535 |

### b. Reconciliation of Fair Value Measurements Within Level 3

| | Market Value at 1 April 2020 | Transfers into Level 3 | Transfers out of Level 3 | Purchases During the Year | Sales During the Year | Unrealised Gains and Losses | Realised Gains and Losses | Market Value at 31 March 2021 |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Private Debt | 96,858 | 0 | 0 | 9,796 | (12,545) | 6,097 | 502 | 100,708 |
| Infrastructure | 8,549 | 0 | 0 | 16,744 | (2,978) | (8,241) | (434) | 13,640 |
| UK Unquoted Equities | 833 | | 0 | 349 | 0 | 0 | 0 | 1,182 |
| | 106,240 | 0 | 0 | 26,889 | (15,523) | (2,144) | 68 | 115,530 |





## 17. Financial Instruments

### (a) Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table summarises the carrying amounts of financial assets and liabilities by category.

| 31st March 2020 | | | | 31st March 2021 | | |
|---|---|---|---|---|---|---|
| Designated as fair value through profit and loss | Loans and Receivables | Financial Liabilities amortised at cost | | Designated as fair value through profit and loss | Loans and Receivables | Financial Liabilities amortised at cost |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| | | | **Assets** | | | |
| 468,984 | 0 | 0 | Fixed Interest Securities | 337,682 | 0 | 0 |
| 833 | 0 | 0 | Equities | 1,182 | 0 | 0 |
| 2,498,451 | 0 | 0 | Pooled Investments | 3,597,316 | 0 | 0 |
| 276,103 | 0 | 0 | Pooled Property | 279,864 | 0 | 0 |
| 142,871 | 0 | 0 | Diversified Growth Funds | 170,503 | 0 | 0 |
| 0 | 143,492 | 0 | Cash | 0 | 116,703 | 0 |
| 2,727 | 0 | 0 | Investment Debtors | 2,129 | 0 | 0 |
| 0 | 11,476 | 0 | Non Investment Debtors | 0 | 12,283 | 0 |
| 3,389,969 | 154,968 | 0 | | 4,388,676 | 128,986 | 0 |
| | | | **Liabilities** | | | |
| 0 | 0 | 0 | Investment Creditors | 0 | 0 | 0 |
| 0 | 0 | 3,402 | Non Investment Creditors | 0 | 0 | 7,548 |
| 0 | 0 | 3,402 | | 0 | 0 | 7,548 |
| 3,389,969 | 154,968 | (3,402) | | 4,388,676 | 128,986 | (7,548) |

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

| | 2020/21 | 2019/20 |
|---|---|---|
| | £000 | £000 |
| Fair Value Through Profit & Loss | 982,096 | (17,152) |
| Loans and Receivables | (264) | (65,503) |
| | 981,832 | (82,655) |

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

### Risk and Risk Management

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

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

### (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 risk-adjusted return.

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 Pension Fund Committee (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 consultants, the Fund has determined that the following movements in market price risk are reasonably possible for the 2021/22 reporting period.

| Asset Type | Potential Market Movements (+/-) % |
|---|---|
| Cash and Cash Equivalents | 1.0 |
| UK Bonds | 0.5 |
| UK Equities | 0.0 |
| Overseas Equities | 7.2 |
| UK Pooled Equity | 7.2 |
| Overseas Pooled Equity | 7.2 |
| Pooled Property Investments | 5.4 |
| Diversified Growth Funds | 4.0 |
| Other Pooled Investments | 2.3 |
| 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 31st March 2021 £000 | Potential Market Movement £000 | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Cash and Cash Equivalents | 105,209 | 1,052 | 106,261 | 104,157 |
| UK Bonds | 337,682 | 1,637 | 339,320 | 336,045 |
| UK Equities | 1,182 | 0 | 1,182 | 1,182 |
| Overseas Equities | 0 | 0 | 0 | 0 |
| UK Pooled Equity | 377,443 | 27,176 | 404,619 | 350,267 |
| Overseas Pooled Equity | 2,299,233 | 165,545 | 2,464,778 | 2,133,688 |
| UK Government Bonds | 141,521 | 425 | 141,945 | 141,096 |
| UK Corporate Bonds | 114,983 | 1,725 | 116,708 | 113,258 |
| Multi Asset Credit | 192,755 | 5,783 | 198,538 | 186,973 |
| Pooled Property Investments | 279,864 | 15,113 | 294,977 | 264,751 |
| Diversified Growth Funds | 170,504 | 6,820 | 177,323 | 163,684 |
| Other Pooled Investments | 466,049 | 10,512 | 476,560 | 455,537 |
| Non Investment Debtors/Creditors | 4,735 | 0 | 4,735 | 4,735 |
| Total Assets | 4,491,160 | | 4,726,946 | 4,255,373 |

| Asset Type | Value as at 31 March 2020 £000 | Potential Market Movement £000 | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Cash and Cash Equivalents | 138,523 | 1,108 | 139,631 | 137,415 |
| UK Bonds | 468,984 | (1,006) | 467,978 | 469,990 |
| UK Equities | 833 | 0 | 833 | 833 |
| Overseas Equities | 0 | 0 | 0 | 0 |
| UK Pooled Equity | 260,448 | 18,752 | 279,200 | 241,696 |
| Overseas Pooled Equity | 1,655,171 | 119,172 | 1,774,343 | 1,535,999 |
| Pooled Property Investments | 276,103 | 14,910 | 291,013 | 261,193 |
| Diversified Growth Funds | 142,871 | 6,429 | 149,300 | 136,442 |
| Other Pooled Investments | 582,832 | 9,750 | 592,582 | 573,082 |
| Non Investment Debtors / Creditors | 8,074 | 0 | 8,074 | 8,074 |
| Total Assets | 3,533,839 | | 3,702,954 | 3,364,724 |





### 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 2021 and 31 March 2020 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| Cash and Cash Equivalents | 105,209 | 138,523 |
| Fixed Interest Securities | 337,682 | 468,984 |
| Pooled Investments | 256,504 | 0 |
| | 699,395 | 607,507 |

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. For illustrative purposes if it were to change by +/-1% the values in the table above would change by £141m for 2020/21 and £131m for 2019/20.

### Currency Risk

Currency risk is 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 (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

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 +/-8.4%. 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, an 8.4% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Asset Type | Value as at 31st March 2021 £000 | Value on 8.5% Increase Increase £000 | Value on 8.5% Decrease Decrease £000 |
|---|---|---|---|
| Overseas Equities | 2,299,233 | 2,494,668 | 2,103,798 |

| Asset Type | Value as at 31st March 2020 £000 | Value on 8.6% Increase £000 | Value on 8.6% Decrease £000 |
|---|---|---|---|
| Overseas Equities | 1,655,171 | 1,795,861 | 1,514,482 |

### (b) Credit Risk

Credit risk is 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, 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 2021 was £11.5m (31 March 2020, £5.0m) and was held with the following institutions:

| | Credit Rating | 31 March 2021 £000 | 31 March 2020 £000 |
|---|---|---|---|
| **Call Accounts** | | | |
| Barclays Bank Plc (NRFB) | A+ / F1 | 1,273 | 678 |
| **Money Market Funds** | | | |
| State Street Global LVNAV MMF | AAAmmf | 0 | 217 |
| **Fixed Term Deposit Notice Accounts** | | | |
| Handelsbanken | AA / F1+ | 728 | 54 |
| Santander UK | A+ / F1 | 1,457 | 371 |
| Bank of Scotland | A+ / F1 | 1,335 | 650 |
| National Westminster Bank PLC | A+ / F1 | 364 | 271 |
| DBS Bank Ltd | AA- / F1+ | 243 | 0 |
| Goldman Sachs | A / F1 | 243 | 325 |
| Standard Chartered | A+ / F1 | 1,214 | 108 |
| Helaba | A+ / F1+ | 0 | 217 |
| Local Authorities | - | 4,636 | 2,078 |
| | | 11,493 | 4,969 |

### (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 2021 the value of illiquid assets was £116m (31 March 2020, £107m).

All liabilities at 31 March 2021 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 Regulations 2013 the Fund's Actuary, Aon, 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 2019.

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 2019 Valuation the aim was to achieve 100% solvency over a period of 21 years from April 2020 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 2019 Triennial Valuation the Fund was assessed as 114% funded (90% at the 2016 Valuation). This reflected a surplus of £450m (deficit of £283m at the 2016 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 2020/21 the common rate (determined at the 2019 Valuation) is 19.3% 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 2019 Triennial Valuation Report and the Funding Strategy Statement on the Fund's website.

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

| | For Future Service Liabilities | |
|---|---|---|
| Investment Return | 4.20% | per annum |
| Inflation | 2.60% | per annum |
| Salary Increases | 3.85% | per annum |
| Pensions Increases | 2.10% | per annum |

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

| | Male | Female |
|---|---|---|
| Current pensioners | 21.8 years | 23.8 years |
| Future pensioners (assumed current age 45) | 23.4 years | 25.6 years |

### Commutation Assumption

It is assumed that future retirees will take 75% 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 | 31st March 2021 £000 | 31st March 2020 £000 |
|---|---|---|
| **Investment Debtors** | | |
| Accrued Dividends | 396 | 435 |
| Withholding Taxes Recoverable | 1,733 | 2,292 |
| | 2,129 | 2,727 |
| **Other Debtors** | | |
| Contributions due from Scheduled (Government) Bodies | 10,791 | 8,916 |
| Contributions due from Admitted Bodies | 0 | 254 |
| Pensions Rechargeable | 752 | 877 |
| Other | 536 | 1,387 |
| | 12,079 | 11,434 |
| **Cash** | 11,494 | 4,969 |
| | 11,494 | 4,969 |
| | 25,702 | 19,130 |

### (a) Long Term Debtors

| | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| **Long Term Debtors** | | |
| Reimbursement of Lifetime Tax Allowances | 203 | 42 |

## 22. Current Liabilities

| Creditors | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| Investment Creditors | 0 | 0 |
| Sundry Other Creditors | 7,548 | 3,402 |
| | 7,548 | 3,402 |

## 23. Additional Voluntary Contributions (AVCs)

We have been unable to obtain from our AVC provider Prudential the figures for market value of the AVCs as at 31 March 2021 and the contributions paid during the year 2020/21. The market value of the AVCs as at 31 March 2020 was £20,222k and contributions paid directly to Prudential during the year 2019/20 was £2,047k.

## 24. Agency Services

The North Yorkshire Pension Fund does not operate Agency Services 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 £1.6m (£1.5m in 2019/20) 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 £56.9m to the Fund in 2020/21 (£48.2m in 2019/20).

The Fund's cash holdings for cashflow purposes 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 2021 the Fund had an average investment balance of £9.0m (£11.3m during 2019/20) and received interest of £42.6k (£102.7k received in 2019/20) on these funds. The Fund also holds a cash investment with NYCC Treasury Management. The value of this investment at the end of 2020/21 was £100.3m (£133.8m in 2019/20).

### Governance

As at 31 March 2021 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 were accrued on exactly the same basis as for all other members of the Fund.

### Key Management Personnel

The Code exempts local authorities from the key management personnel disclosure requirements of IAS 24. This exemption applies in equal measure to the accounts of the Fund. The disclosures required by The Accounts and Audit (England) Regulations can be found in the main accounts of NYCC.

## 26. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2021 were £177.1m (31 March 2020 £165.5m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private debt and infrastructure parts of the portfolio.

## 27. Contingent Assets

Four admitted body employers hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the 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 2019/20).

# Appendix B

**Statement of the Actuary**

## North Yorkshire Pension Fund
## Statement of the Actuary for the year ended 31 March 2021

### 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 last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

### Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £3,575.2M) covering 114% of the liabilities 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 2020 was:

   - 19.3% of pensionable pay. This is 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**

   - an allowance of 0.9% of pay for McCloud and cost management – see paragraph 9 below,

   **Less**

   - 1.6% of pensionable pay to remove surplus in excess of a funding level of 110% over a recovery period of 21 years from 1 April 2020 (which together with the allowance above comprises the secondary rate).

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 30 March 2020 (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.

   Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

| Year from 1 April | % of pensionable pay | Plus total contribution amount (£M) |
|---|---|---|
| 2020 | 19.3 | 1.2 |
| 2021 | 18.5 | 1.3 |
| 2022 | 17.1 | 1.4 |

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution changes and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

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

| | |
|---|---|
| Discount rate for periods in service | |
| Secure scheduled body employers * | 4.2% p.a. |
| Intermediate funding target | 3.8% p.a. |
| Ongoing Orphan employers | 3.3% p.a. |
| Low risk funding target | 1.3% p.a. |
| Discount rate for periods after leaving service | |
| Secure scheduled body employers * | 4.2% p.a. |
| Intermediate funding target | 3.8% p.a. |
| Ongoing Orphan employers | 1.6% p.a. |
| Low risk funding target | 1.3% p.a. |
| Rate of pay increases | 3.35% p.a. |
| Rate of increase to pension accounts | 2.1% p.a. |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) | 2.1% p.a. |

** The secure scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.*

*In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% p.a.*

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2N mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Projections Model (CMI2018), with $s_k$ of 7.5 and parameter A of 0.0 assuming a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

| | Men | Women |
|---|---|---|
| Current pensioners aged 65 at the valuation date | 21.8 | 23.8 |
| Current active members aged 45 at the valuation date | 23.4 | 25.6 |

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Administering Authority, in conjunction with the Actuary, monitors the funding position on a regular basis.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 30 March 2020. Other than as agreed or otherwise permitted or required by the Regulations and reflected in the Funding Strategy Statement as appropriate, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities
   - **Increases to Guaranteed Minimum Pensions (GMPs):**
   The 2019 valuation allows for the extension of the ‘interim solution’ for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer term solution to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case. The response sets out its proposed longer term solution, which is to extend the interim solution further to those reaching SPA after 5 April 2021.

   The results of the 2019 valuation do not allow for the impact of this proposed longer term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.
   - **Cost Management Process and McCloud judgement:**
   Initial results from the Scheme Advisory Board 2016 cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was issued in July 2020.

   The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 0.9% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the details of the LGPS changes arising from the McCloud judgement and the 2016 cost management process have been agreed.

   Work on the 2020 cost management process has now been started, and it is possible that further changes to benefits and/or contributions may ultimately be required under that process, although the outcome is not expected to be known for some time.
   - **Goodwin**
   An Employment Tribunal ruling relating to the Teachers' Pension Scheme concluded that provisions for survivor's benefits of a female member in an opposite sex marriage are less favourable than for a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. The chief secretary to the Treasury announced in a written ministerial statement on 20 July 2020 that he believed that changes would be required to other public service pension schemes with similar arrangements, although these changes are yet to be reflected in LGPS regulations. We expect the average additional liability to be less than 0.1%, however the impact will vary by employer depending on their membership profile.

10. 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 as at 31 March 2019. 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.

11. The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address: www.nypf.org.uk/Documents/Actuarial%20valuation%20report%202019.pdf

**Aon Solutions UK Limited**
May 2021

# Appendix C

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

*(To follow.)*

## Contact us

W: **www.northyorks.gov.uk** E: **customer.services@northyorks.gov.uk**
T: **01609 780 780** (Monday to Friday 8.00am - 5.30pm closed weekends and bank holidays)
**North Yorkshire County Council, County Hall, Northallerton, North Yorkshire, DL7 8AD**

You can request this information in another language or format at
**www.northyorks.gov.uk/accessibility**

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Deloitte.



# North Yorkshire Pension Fund

## Update report to the Audit Committee on the 2021 audit

Issued on 22 October 2021

# Contents

## 01 Update Report



## 02 Appendices







# Update report

A tailored, insightful and efficient audit delivered by a team of pension audit specialists

# Partner introduction

## The key messages in this report:

I have pleasure in presenting our Update Report to the Audit Committee for the 2021 audit of the North Yorkshire Pension Fund (the 'Fund') and I would like to draw your attention to the key messages of this paper:

**Audit quality is our number one priority.**

We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

A **robust** challenge of the key judgements taken in the preparation of the financial statements.

A strong **understanding** of your internal control environment.

A **well planned** and delivered audit that raises findings early with those charged with governance.

### Audit scope

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the statutory financial statements of the Fund which are prepared under the Code of Practice on Local Authority Accounting 2020/21 ("the Code") issued by CIPFA; and
- Report to "those charged with governance" on certain additional matters, including any unadjusted errors over our reporting threshold ("RT"), our independence and any other issues we consider should be brought to their attention.

### Status of our audit

We have the following matters to complete as part of our audit:

- Completion of internal quality assurance procedures, including review processes and follow-up queries arising from review;
- Review of updated final version of the financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2021 through to signing.

# Partner introduction

## The key messages in this report (continued):

**Our conclusion**

Based on our work undertaken, we plan to issue an unqualified audit opinion on the financial statements of the Fund included within the financial statements of North Yorkshire County Council. However, we do have procedures outstanding and will report to management should any further matters arise as we complete our work. Our work on the Fund's annual report will be undertaken following signing of these financial statements.

In reaching our conclusions, we considered the control observations and the results from our testing on pages 9 to 16. In addition, we noted:

- The significant accounting judgements and estimates appear reasonable; and
- There is one uncorrected adjustment as set out in Appendix 1, but no uncorrected disclosure deficiencies.

We will provide a Final Report on completion of the outstanding procedures.



**Nicola Wright**
**Audit Partner**

# Materiality

## Our approach to materiality

### Basis of our materiality benchmark

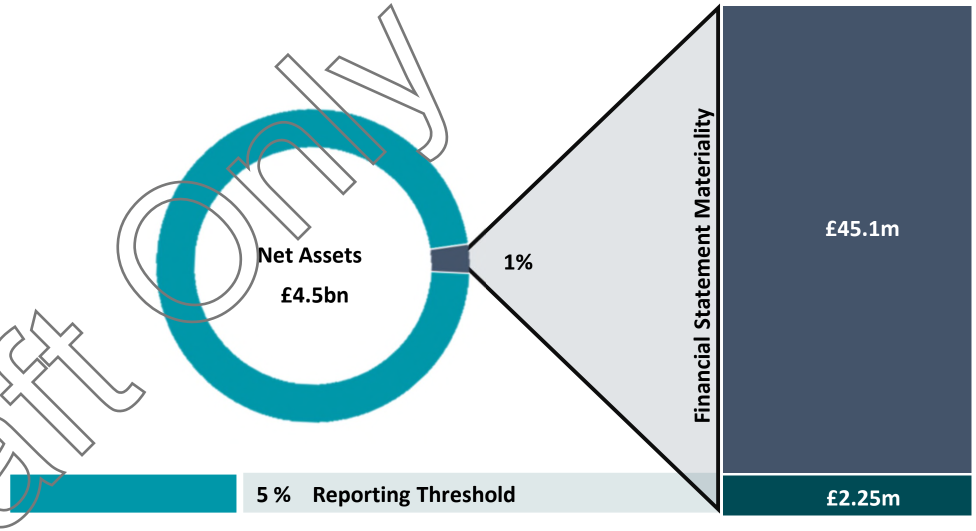
- We set materiality for our opinion on the financial statements at 1% (2020: 1%) of the net assets of the Fund.
- For the year ended 31 March 2021, we determined financial statement materiality to be £45.1m (2020: £35.4m).

### Reporting to those charged with governance

- We report to you all misstatements found in excess of 5% of financial statement materiality. We report to you misstatements below this threshold if we consider them to be material by nature.
- For the year ended 31 March 2021, we determined the reporting threshold for the financial statements to be £2.25m (2020: £1.8m).
- Auditing standard also require us to highlight any uncorrected disclosure deficiencies to enable the Audit Committee to evaluate the impact thereof.
- We have one uncorrected misstatement to report and have no disclosure deficiencies to report to you (see Appendix 1). There were no material corrected misstatements.

### Materiality calculation

Although materiality is the judgement of the audit partner, the Audit Committee must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



# Scoping

## Risk dashboard

| Risk Identified | Material Balance | Management Judgement | Controls Approach | Fraud Risk | Further Details |
|---|---|---|---|---|---|
| **Significant Risk**<br>Management override of controls | ✗ | ⚠ | **D&I** | ✓ | Pg. 9 |
| **Other Focus Area**<br>Completeness and accuracy of the asset transfer to Border to Coast | ✓ | ⚠ | **D&I** | ✗ | Pg. 11 |
| **Other Focus Area**<br>Accuracy of investment transactions | ✓ | ⚠ | **D&I** | ✗ | Pg. 12 |
| **Other Focus Area**<br>Completeness of investments and valuation of alternative investments | ✓ | ⚠ | **D&I, OE** | ✗ | Pg. 13 |
| **Other Focus Area**<br>Completeness and accuracy of contributions | ✓ | ⚠ | **D&I** | ✗ | Pg. 14 |



| | | | | | |
|---|---|---|---|---|---|
| + | Significant Risk | ⚠ | Low levels of management judgement/complexity | **D&I** | Design and Implementation |
| | Other area of audit focus | ⚠ | Medium levels of management judgement/complexity | **OE** | Operating effectiveness |
| | | ⚠ | High degree of management judgement/complexity | | |


Significant
audit risks

# Significant risk

## Management override of controls

**Risk identified**

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits.

The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

| Response of those charged with governance | Deloitte response to significant risk identified |
|---|---|
| The financial reporting process in place has an adequate level of segregation of duties. | In order to address this significant risk, our audit procedures consisted of the following:<br>• Use of Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items;<br>• Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;<br>• Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;<br>• Tested the design and implementation of controls around the journals process, and investment and disinvestment of cash during the year;<br>• Reviewed related party transactions and balances to identify if any inappropriate transactions had taken place;<br>• Reviewed the accounting estimates for bias, such as year-end debtor and creditor postings and the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management; and<br>• Assessed whether there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year. |

**Deloitte comment**

We have identified no matters to report to the Audit Committee.

# Audit focus areas

# Audit focus areas

## Completeness and accuracy of the asset transfer to Border to Coast

**Risk identified**

Due to the Government announcement that Local Government Pension Schemes ('LGPS') must pool their assets together in order to reduce the cost of investing to the public purse, the Fund became part of the Border to Coast Pension Partnership ('BCPP') in the prior year.

During the current year, the Fund transferred a further £90m of directly held assets to Border to Coast.

**Response of those charged with governance**

In the prior year, the Fund engaged Legal & General ('LGIM') to provide oversight and to report to them on the transition process.

**Deloitte response to audit focus area identified**

In order to address this audit focus area, our audit procedures consisted of the following:

- Confirmed the completeness and the accuracy of the values of the assets transferred by comparing the purchases of BCPP funds as per the client's breakdown and the investment manager reports; and
- Tested the design and implementation of key controls around asset transfers by reviewing the Border to Coast Type 2 internal control report and the custodian internal control report.

**Deloitte comment**

As a transition report was not issued in relation to the asset transfer to Border to Coast this financial year, our approach has therefore been to test the transactions. We have identified no matters to report to the Audit Committee as part of this work.

# Audit focus areas

## Accuracy of investment transactions

**Risk identified**

The Fund holds a diverse portfolio of pooled investment vehicles including equities, bonds, pooled investment vehicles (‘PIVs’) and property PIVs. The volume of transactions and different holdings could lead to a risk of incomplete or inaccurate reporting of transactions or balances at the year-end.

**Response of those charged with governance**

The Fund engages various investment managers (including BCPP) and BNYM as custodian for these investments.

**Deloitte response to audit focus area identified**

In order to address this audit focus area, our audit procedures consisted of the following:

- Performed design and implementation testing on the key controls over the accuracy of investment transactions by obtaining investment manager internal control reports and evaluating the implications for our audit of any exceptions noted;
- Obtained independent confirmation of transactions during the Fund year from the investment managers;
- Performed a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year (i.e. purchases, sales, change in market value);
- Performed design and implementation testing on an investment sale transaction, agreeing to the investment mandate and the investment manager’s transaction report; and
- Tested the completeness of investments by agreeing a sample of purchases and sales by vouching items from the custodian report to the relevant investment manager confirmation.

**Deloitte comment**

The pensions team does not perform investment unit reconciliations or review one performed by the custodian, instead relying on review of cash movements. This increases the risk that an investment transaction goes unnoticed, as the change in market value is effectively a balancing figure in the annual reconciliation. We recommend that the pensions team performs a regular unit reconciliation of the investment holdings, thus ensuring completeness of transactions.

Except for the above, we have not identified any findings relating to the accuracy of investment transactions to report to the Audit Committee.

# Audit focus areas

## Completeness of investments and valuation of alternative investments

**Risk identified**

The Fund holds a large and highly material portfolio of investments and due to the ongoing changes and numerous transactions within this portfolio, there is considered to be an increased risk of material misstatement.

Additionally, within this portfolio, there is a range of alternative investments. These funds do not have publicly available prices and are often infrequently priced, increasing the risk of stale pricing.

**Response of those charged with governance**

The Fund engages various investment managers (including BCPP) and BNYM as custodian for these investments.

**Deloitte response to audit focus area identified**

In order to address this audit focus area, our audit procedures consisted of the following:

- Tested the design and implementation, and the operating effectiveness where applicable, of key controls over the completeness and valuation of investments by obtaining the investment manager internal control report (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Agreed the year end valuations and sales and purchases totals in the accounts to the reports received directly from the investment managers and BNYM as custodian, and reconciled these to the individual confirmations received from the investment managers;
- Agreed registered funds and directly held investments to publicly available prices;
- Performed independent valuation testing for a sample of year-end alternative investment holdings by rolling forward the valuation as per the latest audited accounts using cash flows and an appropriate index as a benchmark;
- Ensured appropriate stale price adjustments have been posted to the financial statements; and
- Performed a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year (i.e. purchases, sales, change in market value).

**Deloitte comment**

The internal control reports for Threadneedle and Borders to Coast are qualified, however we are satisfied that these qualifications have no impact on the year-end valuation of investments and the completeness of transactions during the year.

We also identified a difference between the custodian and investment manager reports, which has led to an understatement of the year end investment value by £9m. This was due to an error in the custodian report. We have raised this as an unadjusted error in Appendix 1.

We have no other matters to bring to the attention of the Audit Committee.

# Audit focus areas

## Completeness and accuracy of contributions

**Risk identified**

There is some complexity surrounding the completeness and accuracy of employer and employee contributions received by the Fund. The employer primary and secondary contribution rates are dictated by the actuarial valuation and these vary between the contributing employers. Employee contributions are based on varying percentages of employee pensionable pay. This can vary from month to month and the Fund has no oversight of the individual employer payrolls.

As a result, we consider the completeness and accuracy of contributions to be an audit focus area.

**Response of those charged with governance**

The administration team monitors the due dates of contributions and that the correct amounts are received into the Fund bank account to ensure that payments are in accordance with the actuarial valuation.

Employers must also complete a contributions return confirming that the contributions paid during the year are complete and accurate.

**Deloitte response to audit focus area identified**

In order to address this audit focus area, our audit procedures consisted of the following:

- Tested the design and implementation of key controls over the contributions process;
- Performed an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
- For a sample of active members, we recalculated individual contribution deductions to ensure these are being calculated in accordance with the rates stipulated in the LGPS Regulations for employee contributions and the recommendations of the actuary for employer contributions;
- Tested that the correct definition of pensionable salary is being used per the LGPS Regulations to calculate contribution deductions; and
- For a sample of monthly contributions paid, we checked that they had been paid within the due dates per the LGPS Regulations.



**Deloitte comment**

We have not identified any matters to report to the Audit Committee.

# Other findings

## Heywood Altair system – no formal Service Level Agreement (SLA)

**Risk identified**

It has been noted that the North Yorkshire County Council (the 'Council') are responsible for the hosting and maintenance of the Heywood Altair system, the main pension administration system for North Yorkshire Pension Fund. The Fund does not receive Service Auditor Reports (SARs) from the Council and there are no formal SLAs in place with them. There is also no independent monitoring from management at the Fund over the main pension administration system that is hosted externally. This leads to the Pension Fund receiving no assurance over the operation of key IT general computer controls including information security, change management and IT operations.

In mitigation, there are general SLAs in place within the Council that are used across all services that the Council has a business relationship with, therefore there are general expectations outlined between the Council and the Fund, although not specific to the needs of the Fund. The Council hosts a range of services for external organisations, therefore the Fund is able to gain some assurance over the security and operating effectiveness of the controls the Council holds over the underlying infrastructure of the Heywood Altair system.

**Recommendation**

Formal Service Level Agreements should be put in the place between the Council and the Fund, so as to ensure that the Fund receives assurance over the operation of key IT general computer controls.

# Prior year findings

## Follow up on prior year findings

| Finding | Recommendation | Follow up |
|---|---|---|
| Heywood Altair system – no formal Service Level Agreement (SLA). | Formal Service Level Agreements should be put in place between the Council and the Fund, so as to ensure that the Fund received assurance over the operation of key IT general computer controls. | No change. We continue to report this finding in the current year – see page 15. |
| The pensions team does not perform a unit reconciliation of investment holdings, relying instead on reporting prepared by the global custodian, BNYM. | We recommend that the pensions team performs a regular unit reconciliation of the investment holdings, thus ensuring completeness of transactions. | No change. We continue to report this finding in the current year – see page 12. |

# Other risks

## Other audit considerations

| Area of focus | Description | Audit response |
|---|---|---|
| **Going Concern** | As auditors, we are required to confirm in our audit report that the going concern basis of the financial statements is appropriate. | Our testing to address this risk included:<br>• examined the latest publically available information regarding the financial position of the principal employers;<br>• analysed the latest funding position of the Fund; and<br>• reviewed minutes of the Audit Committee meetings. |
| **Fraud** | In our Audit Report in the financial statements we are now required to directly report on the extent to which the audit was considered capable of detecting irregularities, including fraud and other matters of non-compliance with laws and regulations. | Our testing to address the risk included:<br>• performed procedures to assess the risk of management override as detailed on page 9;<br>• reviewed the controls in place surrounding fraud risks including disinvestments; and<br>• agreed a sample of investments to third party investment confirmations. |
| **Brexit** | During the Scheme year, the UK have left the European Union ("EU").<br><br>The impact of Brexit may be felt across the Scheme and its operations, for example through withholding taxes and the impact on the going concern of the Fund. | Our testing to address the risk included:<br>• assessed the fair value of assets as at the Fund's year-end date;<br>• reviewed minutes of the Audit Committee meetings and the going concern assessment; and<br>• confirmed that appropriate disclosures have been made in the financial statements. |

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations.
- Our internal control observations.
- Other insights we have identified from our audit.

### What we don’t report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and Fund risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the Fund accounts and the other procedures performed in fulfilling our audit plan.

### The scope of our work

Our observations are developed in the context of our audit of the Fund accounts.

We described the scope of our work in our proposed audit plan circulated to you on 12 March 2021.

The audit insights and other control findings of this report provide details of additional work we have performed alongside the audit of the Fund accounts.

This report has been prepared for the AC, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

**Deloitte LLP**

Statutory Auditor

Newcastle upon Tyne | 22 October 2021

# Appendices

## Key audit matters

# Appendix 1: Audit adjustments

## Current year and prior year audit adjustments

| Detail | Debit/ (credit) Fund Account £m | Debit/ (credit) Net Asset Statement £m |
|---|---|---|
| **Uncorrected misstatements identified in current year** | **(9)** | **9** |
| **Corrected misstatements identified in current year** | - | - |

**Uncorrected misstatements**

As set out on page 13, we identified an understatement of investment assets due to an error in the custodian report at year end.

**Disclosure deficiencies**

At the time of writing this report, there were no corrected or uncorrected disclosure deficiencies to bring to the Audit Committee’s attention for the current year. Should any further items arise as we complete our audit procedures, this will be reported to management and in our Final Report.

**Prior year misstatements and disclosure deficiencies**

In the prior year, there was a stale price adjustment relating to Permira Credit fund (£1.58m) which was corrected in the financial statements.

There were no other uncorrected misstatements or corrected or uncorrected disclosure deficiencies in the prior year.

# Appendix 2: Independence and fees

## A Fair and Transparent Fee

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

| | |
|---|---|
| **Independence confirmation** | We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund.<br><br>In considering the requirements of Auditor Guidance Note 01 (issued by the National Audit Office) and the Ethical Standard 2019 to report all significant facts and matters that may bear upon our integrity, objectivity and independence, though not meeting the defined criteria for an affiliate of an audited entity, we have taken account of the tax and internal audit services provided to Border to Coast Partnership by Deloitte. To this effect, we have documented our assessment on the threats and safeguards concerned with the delivery of services to, and the receipt of fees from, Border to Coast Pension Partnership, along with our assessment on the opinion of a reasonable and informed third party on these services. |
| **Fees** | Our audit fee for the year ended 31 March 2021 is £19,206* (2020 £19,206**) for the Fund. The fee excludes VAT and includes out of pocket expenses.<br><br>The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers, we will be looking to discuss with the Authority the current level of fee.<br><br>*This fee excludes the cost of providing IAS 19 letters to other local authorities that will be recharged by the Fund to the other local authorities. The latter has been discussed with management and agreed at £2,000 (2020 £2,500) per letter.<br><br>**We have also requested an additional fee due to the impact of Covid-19 on the audit of £5,440. This request is currently under consideration by PSAA. |
| **Non audit services** | In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |
| **Ethical Standard 2019** | The FRC has released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest' where assets are greater than £1bn and there are 10,000 members. As a result, non audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited. |

# Appendix 3: Fraud responsibilities and representations

## Responsibilities explained

**Your responsibilities:**

The primary responsibility for the prevention and detection of fraud rests with management and the Audit Committee, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

**Our responsibilities:**

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified management override as a key risk for the Fund.

**Fraud characteristics:**

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

**We will request the following to be stated in the representation letter signed on behalf of the Audit Committee:**

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and Authority and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

# Appendix 3: Fraud responsibilities and representations (continued)

## Inquiries

We will make the following inquiries regarding fraud:

**Management:**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to the Audit Committee regarding its processes for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- We plan to involve management from outside the finance function in our inquiries.

**Internal audit**

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the Fund, and to obtain its views about the risks of fraud.

**The Audit Committee**

- How the Audit Committee exercises oversight of management's processes for identifying and responding to the risks of fraud in the Fund and the internal control that management has established to mitigate these risks.
- Whether the Audit Committee has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- The views of the Audit Committee on the most significant fraud risk factors affecting the Fund.

# Appendix 4: Topical matters

## Department for Work and Pensions (DWP) – taking action on climate risk

Prior to the approval of the Pension Schemes Act 2021, the Department for Work and Pensions (DWP) opened a consultation on regulations covering the new climate risk powers contained within the Act. Under the proposed regulations, the UK Government has announced its intention to make Task Force on Climate-related Financial Disclosures (TCFD) disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. It is proposed that the following schemes should be in scope of the mandatory climate change governance and TCFD reporting requirements:

**(a) trust schemes with £1 billion or more in net assets**
**(b) authorised master trusts**
**(c) authorised schemes providing collective money purchase benefits**

These qualifying schemes will have to produce and publish a TCFD report. We have included some detail on the recommended content of the TCFD report within this update.

The Minister for Pensions and Financial Inclusion, Guy Opperman stated "I whole-heartedly welcome the Chancellor's announcement of the TCFD Roadmap in November 2020 outlining the steps that the UK Government and regulators will take towards rolling out mandatory climate reporting requirements across its regulated community. This means that, come 2023, the vast majority of assets will be invested with pension scheme trustees, asset managers, and insurers who are disclosing climate- related financial risks and opportunities in line with recommendations by the TCFD."

Regulations would require trustees to meet climate change governance requirements which underpin the 11 recommendations of the TCFD and to report on how they have done so. We have included a separate slide on the TCFD recommendations for reference. Statutory guidance, will set out how trustees should meet the requirements and report in line with the TCFD recommendations. Where trustees choose to diverge from statutory guidance, they need to be able to explain their reasons for doing so in their TCFD report.

With almost £2 trillion in assets under management, all pension schemes are exposed to climate-related risks. It is important to note, the government sees stewardship of assets, including engagement with higher carbon firms and voting at Annual General Meetings (whether directly or via asset managers), as entirely legitimate responses to the climate risk revealed through TCFD-aligned disclosures. Indeed, holding such assets places trustees in an influential position to steward firms towards lower-carbon business practices, which is why government advocates collaboration with business, as opposed to divestment.


The **four core** elements of TCFD disclosures are shown in the diagram and these form the basis of the required pension scheme disclosures.

**1. Governance** - Trustees must establish and maintain oversight of the climate-related risks and opportunities which are relevant to the scheme. They must also establish and maintain processes for the purpose of satisfying themselves that persons undertaking governance on their behalf or those who advise or assist the trustees with respect to governance, are taking adequate steps to identify, assess and manage climate-related risks and opportunities which are relevant to the scheme. In their annual TCFD report, trustees must describe how such oversight is maintained.

**2. Strategy**- Trustees must identify and assess the impact of climate-related risks and opportunities which they consider will have an effect over the short term, medium term and long term on the scheme's investment strategy and (where it has one) the scheme's funding strategy. Short, medium and long term are such periods as the trustees deem appropriate, taking into account the scheme's liabilities and its obligations to pay benefits. The trustees need to document the above in their TCFD report.

# Appendix 4: Topical matters

## Department for Work and Pensions (DWP) – taking action on climate risk

**3. Risk management** - Trustees must establish and maintain processes for the purpose of enabling them to identify, assess and effectively manage climate-related risks which are relevant to the scheme. They must also ensure that management of climate-related risks is integrated into their overall risk management of the scheme. In their annual TCFD report, trustees must describe these processes and how they are integrated into the trustees' overall risk management of the scheme.

**4a. Metrics** -Trustees must select and as far as they are able to calculate an absolute emissions metric and an emissions intensity metric in respect of the scheme's assets. Draft statutory guidance proposes that trustees should use total emissions and carbon footprint metrics – calculating scope 1, and 2 and 3 greenhouse gas emissions (scope 3 is not included in the first year). Trustees must also select one additional climate change metric to calculate in respect of the scheme's assets. Draft statutory guidance suggests a range of measures, including an implied temperature rise or climate value at risk measure. Trustees must review their selection of metrics from time to time as appropriate to the scheme. The trustees need to document the above in their TCFD report and this must be disclosed in line with the requirements noted in the **Disclosure** section of this update.

**4b. Targets** - Trustees must set a non-binding target for the scheme in relation to at least one of the metrics which they have selected to calculate. On an annual basis they must measure performance against the target (as far as are they are able) and taking into account the scheme's performance they must decide whether to retain or replace the target. In their annual TCFD report, trustees must describe the target or targets which they have set, and the performance of the scheme against them.

Despite the common core principles of TCFD, the DWP acknowledged that the continuing rapid evolution of methodologies still poses the risk that different approaches could lead to different results being calculated for the same portfolio/assets. The Department indicated it will be consulting later on the use of one particular metric, 'implied temperature rise' (ITR) which is emerging as potentially the most useful and powerful.

We have detailed below a number of other matters of note contained within the DWP paper.

**Scenario analysis** - Trustees must, as far as they are able, undertake scenario analysis assessing the impact on the scheme's assets and liabilities, the resilience of the scheme's investment strategy and (where it has one) the scheme's funding strategy for at least two scenarios – one of which corresponds to a global average temperature rise of between 1.5 and 2°C inclusive on pre-industrial levels. In their annual TCFD report, trustees must describe the most recent scenarios they have analysed, the potential impact on the scheme's assets and liabilities and the resilience of the scheme's investment strategy and (where it has one) funding strategy in those scenarios, and their reason for not carrying out a new scenario analysis if they have not done one. Trustees should carry out scenario analysis as far as they are able in relation to all the scheme's relevant assets. Following the initial consultation in August 2020, the DWP have confirmed that they have made changes to the original proposal and will require that scenario analysis must be carried out in the first year that trustees are subject to the requirements and every three years thereafter. In the intervening years, trustees must do an annual review of their scenario analysis and carry out fresh analysis where they consider it appropriate to do so

**Trustee knowledge and understanding** - Trustees must have the appropriate degree of knowledge and understanding of the principles relating to the identification, assessment and management of climate change risks and opportunities in respect of occupational pension schemes, for the purposes of enabling them to properly exercise their functions. These principles will be prescribed matters for the purposes of the Pensions Act 2004.

**Disclosure** - Trustees are required to publish their TCFD report on a publicly available website, accessible free of charge. The Chair of trustees must sign the report. The TCFD report must be referenced from – but need not be included in – the Annual Report. Members must be told via any annual benefit statement they receive that the report has been published and where they can locate it. Trustees of DB schemes must also provide this information to members via the scheme funding statement.

Trustees must also provide TPR with the website address where they have published their most recent TCFD report via the annual scheme return form. Where trustees have not yet published their first report, they must inform TPR whether the period for doing so has ended. Trustees must also provide TPR with the website address of their published Statement of Investment Principles ("SIP") and (where applicable) implementation statement and published excerpts of the Chair's Statement in the annual scheme return form.

# Appendix 4: Topical matters

## Department for Work and Pensions (DWP) – taking action on climate risk

**Penalties –** there will be a mandatory penalty for complete failure to publish any TCFD report and other penalties would be subject to TPR discretion. Penalties in relation to climate change governance, reporting and publication could be imposed without recourse to the Determinations Panel, in a similar way to the penalty regime that applies under the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The requirements to reference the TCFD report from the Annual Report and inform members about the TCFD report's availability would be subject to the existing penalty regime in the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. The requirements to inform TPR of the website address of the published TCFD report – or that the period for publishing the report has not ended – and of the website address of the published SIP, implementation statement (where applicable) and excerpts of the Chair's Statement would be subject to the penalty regime in section 10 of the Pensions Act 1995.

### Scope and timing of TCFD policy

The DWP paper has outlined two tests as to whether a pension scheme is in scope.
We have included details directly from the DWP paper below.

### Threshold test

| The condition | Governance requirement | Disclosure Requirements | |
|---|---|---|---|
| *If* | *Trustees must meet the climate change governance requirements for* | *Trustees must publish a TCFD report* | *Trustees must include a link to the report in:* |
| On 1st scheme year end date to fall on or after 1 March 2020:<br><br>the scheme has relevant assets ≥ £5bn | Current scheme year from 1 October 2021* to end of that scheme year.<br><br>*And*<br><br>[unless scheme's relevant assets are <£500m on the scheme year end date]<br><br>Next full scheme year to begin after 1 October 2021 to end of that scheme year.<br><br>And so on. | Within 7 months of the end of the scheme year which is underway on 1 October 2021†.<br><br>*And*<br><br>Within 7 months of the end of the next scheme year to begin after 1 October 2021†<br><br>And so on | The Annual Report and Accounts produced for that scheme year |
| On 1st scheme year end date to fall on or after 1 March 2021:<br><br>the scheme has relevant assets ≥ £1bn | Current scheme year from 1 October 2022* to end of that scheme year<br><br>And so on | Within 7 months of the end of the scheme year which is underway on 1 October 2022†.<br><br>And so on. | |
| From any scheme year end date to fall on or after 1 March 2022<br><br>The scheme has relevant assets ≥ £1bn | The beginning of the scheme year which is one scheme year and a day after that scheme year end date | Within 7 months of end of that full scheme year† | |

* unless audited accounts have not been obtained in respect of that scheme year, in which case they apply from the date they are obtained.
† unless scheme's relevant assets are zero on the scheme year end date.

### Authorisation test

| The condition | Governance requirement | Disclosure Requirements | |
|---|---|---|---|
| *If* | *Trustees must meet the climate change governance requirements for* | *Trustees must publish a TCFD report* | *Trustees must include a link to the TCFD report from* |
| On or after 1 October 2021, the scheme is [or becomes] an authorised master trust<br><br>*Or*<br><br>On or after 1 October 2021 the scheme is [or becomes] an authorised scheme providing collective money purchase benefits | Current scheme year which is underway to the end of that scheme year.<br><br>*And*<br><br>[unless scheme is both no longer authorised and relevant assets at previous scheme year end are <£500m]<br><br>Subsequent scheme years. | Within 7 months of the end of the scheme year which is underway.<br><br>*And*<br><br>Within 7 months of the end of subsequent scheme years. | The Annual Report and Accounts produced for that scheme year |

Schemes fall out scope through no longer being authorised and/or having assets of less than £500m

| The condition | Governance requirement | Disclosure Requirements | |
|---|---|---|---|
| *If* | *Trustees' climate governance requirements* | *Trustees TCFD report publishing duties* | *Trustees must include a link to the TCFD report from* |
| After 1st October 2021 the scheme<br><br>Ceases to be an authorised master trust<br><br>*Or*<br><br>Ceases to be an authorised scheme providing collective money purchase benefits<br><br>*And*<br><br>Has relevant assets < £500m at end of previous scheme year | End with immediate effect | End with immediate effect | N/A |
| On scheme year end date falling after 1 October 2021<br><br>The scheme has relevant assets <£500m and is not an authorised scheme. | End with immediate effect | Must be met within 7 months of the end of the scheme year†<br><br>And fall away thereafter. | The annual report and accounts produced for that scheme year |

† unless scheme's relevant assets are zero on the scheme year end date

**Deloitte response:** The DWP document is vast and we have provided only a short summary of the key details. The full consultation document can be found [Taking action on climate risk: improving governance and reporting by occupational pension schemes – response and consultation on regulations - GOV.UK (www.gov.uk)](). We recommend that the trustees review the full guidance and familiarise themselves with the full requirements of the legislation.

In order to comply with the legislation there is a requirement to amend governance arrangements, consider the impact on investment strategy, identify and manage investment risks and obtain the relevant data from scheme advisers. All reporting duties are ongoing, except requirements to conduct scenario analysis, calculate metrics and set and review performance against targets.

Based on the proposed scope and timing of the policy on the left, we expect this to come in to force for the year ended 31 March 2022 financial statements, although the government has not yet set a firm deadline for LGPS.

# Appendix 4: Topical matters

## TCFD recommendations and supporting recommended disclosures

Within our topical update *'Department for Work and Pensions (DWP) – taking action on climate risk'* we have made reference to the fact that regulations would require trustees to meet climate change governance requirements which underpin the 11 recommendations of the TCFD and to report within their TCFD report how they have done this. We have therefore included below a reminder of the recommendations and the supporting recommended disclosures.

| Governance | Strategy | Risk Management | Metrics and Targets |
|---|---|---|---|
| Disclose the organization's governance around climate-related risks and opportunities. | Disclose the actual and potential and opportunities on the organization's businesses, strategy, and financial planning where such information is material. | Disclose how the organization identifies, assesses, and manages climate-related risks | Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. |
| **Recommended Disclosures** | **Recommended Disclosures** | **Recommended Disclosures** | **Recommended Disclosures** |
| a) Describe the board's oversight of climate-related risks and opportunities. | a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. | a) Describe the organization's processes for identifying and assessing climate-related risks. | a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. |
| b) Describe management's role in assessing and managing climate-related risks and opportunities. | b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. | b) Describe the organization's processes for managing climate-related risks | b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. |
| | c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. | c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management. | c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets. |