NOTICE OF AUTHORITY MEETING

You are hereby summoned to a meeting of the South Yorkshire Pensions Authority to be held at the offices of the South Yorkshire Joint Secretariat on Thursday 16 February 2012 at 10.00 am for the purpose of transacting the business set out in the agenda.

M V Oades
Deputy Clerk and Solicitor

Member Services Officer: Len Cooksey
Tel: 01226 772848 Email: lcooksey@syjs.gov.uk

WEBCASTING NOTICE

This meeting may be filmed for live or subsequent broadcast via the Authority's web site. At the start of the meeting the Chair will confirm if all or part of the meeting is being filmed.

You should be aware that the Authority is a Data Controller under the Data Protection Act. Data collected during this webcast will be retained in accordance with the Authority's published policy.

Therefore by entering the meeting room, you are consenting to being filmed and to the possible use of those images and sound recordings for webcasting and/or training purposes.

Distribution

Councillors M Lawton (Chair), R Wraith (Vice-Chair), D Baker, D Barker, E Butler, R Ford, K Goulty, T Hussain, B Johnson, B Perrin, A Sangar and P Wootton

Contact Details

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SOUTH YORKSHIRE PENSIONS AUTHORITY

16 FEBRUARY 2012 AT 10.00 AM AT THE OFFICES OF THE SOUTH YORKSHIRE JOINT SECRETARIAT, 18 REGENT STREET, BARNSLEY

Agenda: Reports attached unless stated otherwise

	Item	**Page**
1	Apologies	
2	Announcements	
3	Urgent Items To determine whether there are any additional items of business which by reason of special circumstances the Chair is of the opinion should be considered at the meeting; the reason(s) for such urgency to be stated.	
4	Items to be considered in the absence of the public and press. To identify items where resolutions may be moved to exclude the public and press. (For items marked * the public and press may be excluded from the meeting).	
5	Declarations of Interest.	
6	Minutes of the Meeting Held on 12 January 2012	1 - 4
6a	Minutes of the Investment Board held on 8 December 2011	5 - 12
7	Work Programme	13 - 16
8	Section 41 Member Feedback from District Councils	
9	Financial Regulations	17 - 34
10	Members' Training and Education: External Conferences and Seminars	35 - 36

SOUTH YORKSHIRE PENSIONS AUTHORITY

12 JANUARY 2012

PRESENT: Councillor Martin Lawton (Chair)
Councillors: D Barker, A Sangar, R Wraith (Vice-Chair), T Hussain, K Goulty, B Perrin and P Wootton

Trade Unions: Gary Warwick

Officers: Gary Chapman (Head of Pensions Administration), Len Cooksey (Member Services Manager), John Hattersley (Fund Director), Maureen Oades (Deputy Clerk & Solicitor & Monitoring Officer) and Bill Wilkinson (Clerk & Treasurer)

Apologies for absence were received from Councillors D Baker, E Butler, B Ford and B Johnson

1 APOLOGIES

Apologies were noted as above.

2 ANNOUNCEMENTS

The Clerk and Treasurer informed the Authority that the former Head of Pensions Administration Mr D Wilkinson had died on New Year's Eve after a short illness. Members and Officers stood in silent tribute.

The Chair of the Authority requested that the Authority's condolences be conveyed to his family.

Councillor Wraith stated that he and other members of the Authority had the greatest respect for Mr Wilkinson; he had been a knowledgeable and conscientious employee who had been a great ambassador for the Pensions Authority.

3 URGENT ITEMS

None.

4 ITEMS TO BE CONSIDERED IN THE ABSENCE OF THE PUBLIC AND PRESS.

RESOLVED – That all items be considered in the presence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 MINUTES OF THE MEETING HELD ON 24 NOVEMBER 2011

RESOLVED – That the minutes of the meeting of the Authority held on 24 November 2011 be agreed and signed by the Chair as a correct record.

7 MINUTES OF THE CORPORATE PLANNING & GOVERNANCE BOARD HELD ON 17 NOVEMBER 2011

RESOLVED – That the minutes of the Corporate Planning and Governance Board held on 17 November 2011 be received.

8 WORK PROGRAMME

The Authority noted its current work programme.

RESOLVED – That the Authority be kept informed of the progress and outcomes of negotiations held between the Department of Communities and Local Government and representatives of the local authority trade unions, regarding the proposed reform of the Local Government Pension Scheme.

9 SECTION 41 MEMBER FEEDBACK FROM DISTRICT COUNCILS

None.

10 TRAINING AND EDUCATION: CIPFA CODE OF PRACTICE

A report of the Clerk and Treasurer was submitted informing Members of the publication by the Chartered Institute of Public Finance and Accountancy (CIPFA) of a Code of Practice governing the requirements for pensions finance knowledge and skills with effect from April 2012.

It was noted that the statements set out in paragraph 4.2 of the report now considered could be incorporated into the Authority's Financial Regulations. These were currently being updated and a report would be presented for consideration to the Authority.

With regard to training, Members noted that the Authority in June 2009, agreed that its member training strategy would be that:

- Newly appointed Members would be given an induction training session
- That all Members should attend the Pensions Fundamentals programme provided by the Local Government Employers organisation
- That internally run training sessions be held after Authority meetings as appropriate, that personal development interviews be held for Members of the Authority; that the Authority's approach to Member training be prudent and vigilant.

RESOLVED –

1. That the report be noted.

2. That the Authority recognises the importance of ensuring that all staff and Members charged with the financial administration and decision making with regard to the Pensions Scheme were fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

11 LGPS REFORM PROPOSALS

The Head of Pensions Administration Mr G Chapman reported on discussions and negotiations held between the Government and the Local Authority trade unions regarding proposed reform of the Local Government Pensions Scheme.

It was anticipated that the new Local Government Pensions Scheme would be introduced in 2014; this would fit in with the valuation cycle of the Authority. The scheme would be a career average scheme. The Authority noted that there was still a lot of work to be done before an agreement could be reached. It was expected that an agreement would be reached and negotiations concluded by April 2013.

G Chapman informed the Authority that a strategy to reduce the number of people opting out of the Local Government Pensions Scheme had been developed. Newsletters would be sent to existing Fund members reminding them that the Local Government Pensions Scheme was still, despite the changes, a good pension scheme which provided Members with excellent value for money.

Officers had developed an online calculator which would allow members to compare the amount of money required to fund a Local Government pension and a comparable private pension.

Officers would also be publicising the other benefits which members of the Local Government Pension Scheme were eligible to receive, i.e. children and spouses benefits and ill health benefits.

Members commented that District Councils could do a lot of work to reduce the number of opt outs from the scheme by participating in the publicity campaign designed to reduce the number of opt outs.

The Authority noted that the Unite union had withdrawn from the negotiations.

RESOLVED – That the report be noted.

CHAIR

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SOUTH YORKSHIRE PENSIONS AUTHORITY

INVESTMENT BOARD

8 DECEMBER 2011

PRESENT: Councillor M Lawton (Chair)
Councillors: K Goulty, T Hussain, B Johnson, B Perrin and A Sangar

Officers: F Bourne (Administration Officer), L Cooksey (Member Services Manager), J Hattersley (Fund Director), M Oades (Deputy Clerk & Solicitor & Monitoring Officer) and S Smith (Head of Investments)

Trade Union Members: M Stowe (Unison) and G Warwick (GMB)

Investment Advisors: S Arkle, R Gilson and T Hardy

Councillor R Wraith (observer)

1 ANNOUNCEMENTS.

None.

2 URGENT ITEMS.

None.

3 ITEMS TO BE CONSIDERED IN THE ABSENCE OF THE PUBLIC AND PRESS.

RESOLVED – That that agenda item entitled "Currency Hedging" be considered in the absence of the public and press.

4 DECLARATIONS OF INTEREST.

None.

5 MINUTES OF THE MEETING OF THE BOARD HELD ON 22 SEPTEMBER 2011

SA requested an amendment to Item 13 – page 6, fourth paragraph from the bottom – the last word should be 'contacts' not 'contracts'.

RESOLVED – That the minutes of the meeting of the Board held on 22 September 2011 be agreed and signed by the Chair as a correct record.

6 WORK PROGRAMME

A report of the Fund Director was submitted reminding Members of the responsibilities of the Board and the matters it may need to consider over the next twelve months or so.

Councillor Perrin requested that the Board receive a briefing on the effect of market volatility on the Fund portfolio and investments. He emphasised that it did not require actuarial input.

Councillor Sangar requested that the dates and frequency of Board meetings be reviewed in order to try and make them more timely.

The trades union representatives requested more training and a greater opportunity to be involved in the decision making process.

M Oades stated that Officers had begun a review of the Authority's structure and this would take into account Board meeting timetables. She also referred to the Pensions Advisory Panel.

RESOLVED – That Officers be requested to arrange a training session on investment market volatility and its consequences for the Fund.

7 LOCAL AUTHORITY PENSION FUND FORUM - JUNE 2011 BUSINESS MEETING

A report of the Fund Director was submitted informing the Authority that the minutes of the June 2011 Business Meeting had been issued.

RESOLVED – That the report be noted.

8 LOCAL AUTHORITY PENSION FUND FORUM: UPDATE

A report of the Fund Director was submitted bringing to Members' attention responses made by the Forum to Government consultation processes during the year. The report also referred to the Forum's engagement with the United Nations Principles for Responsible Investment and the request by the latter for greater UK Pension Fund involvement. Whilst applauding the aims of UNPRI, Members noted the cost and associated administrative burden of subscribing to the principles.

RESOLVED – That the Authority notes the contents of the Forum's consultation responses but that it declines to subscribe to the United Nations Principles for Responsible Investment.

9 IIGCC PAPERS AND SUBSCRIPTION RENEWAL

A report of the Fund Director was submitted updating the Board on the work of the Institutional Investors Group on Climate Change. The report sought the approval of the Board to renew the Authority's membership of the Group.

RESOLVED – That the Board accepts the report now submitted and agrees to renew membership of the Institutional Investors Group on Climate Change for a further year.

10 WINTERHILL RETAIL PARK, MILTON KEYNES: REFURBISHMENT

A report of the Fund Director referred to a proposal from a Member that the Board made an inspection visit to Winterhill Retail Park at Milton Keynes. The park was one of the more valuable investment properties owned by the Fund and was multi-let. Over the last few years the property had been subject to a rolling programme of refurbishment works. Four potential dates in February 2012 were put forward and Members asked to select one. After a discussion it was agreed to extend the invitation to trades union representatives as well.

RESOLVED – That the Board agrees to visit the Winterhill Retail Park at Milton Keynes on a date to be agreed.

11 EMERGING MARKET EQUITY EXPOSURE

In accordance with the discussions that had taken place at the last meeting of the Board on the 22 September, 2011, the Fund Director submitted a report outlining the various externally managed funds that had been identified as potential investment vehicles and the responses received from the advisors. Subsequent to that correspondence the managers of two of the favoured funds had indicated that they were not open to new business. The manager of a non-favoured fund had quoted a fee of 80bps per annum for a £100m investment. (i.e. £800,000). During the discussion which followed advisors reiterated their view that the Authority should seek an external manager for an actively managed vanilla global emerging market segregated mandate for the additional allocation of £100m to the Other International equity portfolio. In the interim, despite the governance issues it raised, advisors recommended investing in a physically-backed non-synthetic ETF. Advisors rejected using investment trusts or other existing vehicles because of costs.

Advisors acknowledged that there would be costs and a time delay involved in awarding such a mandate. The award would need to be advertised in accordance with OJEU requirements and an external consultant would likely need to be appointed to assist in the process. It was suggested, that if at all possible, informal enquiries be made of an investment consultant to try and determine which external managers would consider such a mandate prior to going to advertisement.

RESOLVED – That subject to the further enquiries outlined above the Board agrees to proceed as follows:

i) Invest £100m into a physically asset backed ETF in the short term.

ii) Appoint an outside consultant to advise on the procurement of a manager for a segregated global emerging market equity mandate at an estimated cost of £15,000 to £25,000.

iii) Subject to (ii), appoint an external manager for a segregated global emerging market equity portfolio in the sum of £100m, at an estimated cost of £800,000 per annum, and for the contract to be awarded in accordance with OJEU procurement requirements if required.

iv) Approve the non-budgeted expenditure that arises from the above decisions and which may fall in the 2011/12 and 2012/12 budgets.

At this point in the proceedings the independent investment advisors left the meeting whilst the following matter was discussed.

12 <u>INVESTMENT ADVISORY PANEL</u>

A report of the Clerk and Treasurer was submitted advising the Board that under the new arrangements agreed in June this year, two of the current three advisors on the Investment Advisory Panel would retire on 31 March, 2012

It was agreed that the Board wanted there to be three members of the Panel. It was also agreed that should either of the two retiring advisors wish to re-apply they be allowed to do so but that any such appointment be for only a specified and limited period, possibly one year, and not for a full ten year term.

It was noted that the Board had been aware of the retirement position when it appointed R Gillson earlier in the year and that some of the short listed candidates who applied for the post of advisor then would be appropriate now. Therefore, the Board instructed the Fund Director to contact those candidates, and others identified at the time but not called for interview for various reasons, to determine whether they would wish to be considered now. If there was a sufficient number of candidates identified as a result of this process interviews would be held as soon as practically possible. If not, the Board agreed to appoint an external consultant to assist with the recruitment process.

It was also agreed that the job specification for the position of advisor needed to be more tightly drawn and that candidates should be encouraged to be pro-active in approach. It was agreed to delegate the interview process to Chair and Vice-Chair rather than full Board.

RESOLVED –

i) That the retiring advisors be informed that they could re-apply for their positions if they so wished but if they did so and were appointed that their tenure would be restricted to a short period of time.

ii) That the Fund Director be instructed to contact the other candidates who had been interviewed earlier in the year and to identify other suitable contacts and ascertain whether they would be willing to put their names forward now.

iii) That if sufficient candidates were identified by the above process that they be interviewed by the Chair and Vice-Chair.

iv) That if insufficient candidates were identified then an external consultant be appointed to conduct a search at an estimated cost of £8,000 to £10,000, and that the appropriate supplementary estimate be included in the budget for 2011/12 or 2012/13.

At this point in the proceedings the independent investment advisors rejoined the meeting.

13 QUARTERLY REPORT - QUARTER ENDED 30 SEPTEMBER 2011

The Board reviewed the performance of the Fund during the quarter ended 30 September, 2011. The Fund returned -6.9% against the expected benchmark return of -6.4%, with the Fund valuation falling from £4508.9m to £4196.3m.

The underperformance over the quarter was due to the asset allocation as stock selection overall added value. Being underweight in bonds, especially UK fixed interest, which was the best performing asset class and being overweight equities cost the fund 1.3%. However, advisors noted that in comparison with other funds the performance was reassuring.

The Board noted that global equity markets were again volatile over the quarter as investor sentiment continued to deteriorate. European debt concerns continued. Perceived political stalemate in the US had led to a ratings downgrade which was compounded by poor economic news in August. September saw the IMF reducing global growth estimates and the Federal Reserve warning of significant risks to the US economy. Added to this was also the fear of a downturn in China. There was a general flight to quality and this led to developed world government bond yields falling further. In the UK the 10 year gilt ended at 2.43%. Corporate bonds significantly underperformed government issues as risk appetite turned negative. Corporate yields rose. Equities were the weakest asset class this quarter.

The activity within the bond portfolios reflected the start of the transition to the new benchmark so monies were switched from UK conventional gilts into emerging market bonds. Within equities £5m was added to each of the US, the OFE and Other International portfolios.

Looking forward, volatility would be an ongoing feature. For those able to take a long term view equities looked attractive, especially for income seeking investors. Many blue chip companies were trading on PE ratios around 10x, making them cheap on an historic basis. Meanwhile yields on government and corporate bonds were so low that equity dividends in many cases were offering more income than bond coupons. (Nearly 1/3 of S&P companies now paid a dividend that yielded more than the interest on their intermediate bonds meaning that equity investors had the benefit of potential price appreciation, dividend growth and greater income than bondholders.)

The advisors and Board noted that the operational cost of investment management was now identified within the report. This would be carried forward on an annual basis. The figures up to end March 2011 were:-

Hendersons	(portfolio value c£300m*)	£321,064
Standard Life	(portfolio value c£275m*)	£596,461
Bidwells	(portfolio value c£90m*)	£ 29,991
Internal team	(portfolio value c £3440m*)	£657,559

*Values as at end September 2011
*Subject to performance fee on top, if applicable

A Member asked a question regarding the selection of benchmark indices and another Member sought an update on the void level within the property portfolio and the level of incentives needed to entice new tenants. Amongst the questions from advisors were ones on the level of drawdowns within the private equity portfolio, the difficulties that some five to seven year old vintage funds faced in re-financing and the relatively poor performance of the absolute return fund portfolio. A Member sought further information regarding the suggestion that pension funds invest monies into infrastructure projects and was advised that there had been no contact from government about this. An advisor sought more specific country allocation information within the emerging market equity portfolios. There was a discussion over the future of the Euro and the Eurozone but no conclusions were drawn.

RESOLVED – That the report be noted.

14 <u>BOND MANAGEMENT PRESENTATION</u>

The Board received a presentation on bond management from K Palmer, who manages the gilt and international bond portfolios and the currency hedging operation, on behalf of the Authority.

KP set out the rudiments of bond investment management: bond prices move in inverse relation to interest rates – i.e. prices rise when interest rates fall and vice versa – and the two major tools in managing bonds are yield and duration because the longer the bond is to maturity the bigger the impact on price of a change in yields.

The Fund's largest portfolio is index linked at £600m. Real yields at the moment are as low as they have ever been. In response to a question from a Member it was noted that this Fund's relative high weighting in ILGs compared to other LGPS funds stemmed from its slightly more mature liability profile. Conventional gilts are also overvalued. Current yields are extremely low and are a result of both safe haven buying and the quantitative easing policy of the Bank of England. RG asked about issuance by the Government and KP said the Bank of England will have bought roughly half of this year's gilt issuance.

TH asked about the Index used to measure the emerging markets bond portfolio and was told that it is a customised version of a JP Morgan Index reflecting the mix between US dollar and Euro issues.

SA asked about internal reporting disciplines. KP explained the procedures adopted and described his sources of information and market intelligence including specialist bond brokers; Bloomberg and websites, credit rating (S&P and Moody's) agencies and risk analysis. The portfolio's yield and duration are monitored versus the Index, as are country weightings on a duration weighted basis, as risk control was at the heart of the operation.

KP then spoke about high yield bonds which is the newest portfolio and is still being built up with only £15m invested so far. There was a discussion about risks of default in the asset class, which comprises corporate bonds of below investment grade rating, and KP emphasised that the most important criteria was the quality of the company issuing the bonds. He described the structure of the index (Merrill Lynch High Yield BB-B), and how the portfolio would be structured by analysing sector weightings, comparing companies within sectors and comparing individual issues. SA asked what the target weighting was and about liquidity in the market. The target weighting was 2% of the total Fund, say £85m, and might contain 80-100. Liquidity has been poor ahead of the Christmas break, but should improve in 2012.

RESOLVED – That the presentation be noted and that Mr K Palmer be thanked for an interesting and informative presentation.

15 EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED – That under Section 100A of the Local Government Act 1972, the public and press be excluded from the meeting for the following items of business, on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

16 CURRENCY HEDGING

The Fund Director reported upon progress regarding the adoption of a passive currency hedging strategy. The report highlighted the potential extent of the monthly rollover exposure and the effect that increased holdings of cash would have upon treasury management operations.

RESOLVED – That the Board notes the operation of passive currency hedging that commenced in November in accordance with the Board resolution agreed at its meeting held on 22 September 2011.

CHAIR

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South Yorkshire Pensions Authority
Work Programme

Updated 6 February 2012

South Yorkshire Pensions Authority – cycle of future meetings

Responsibilities	**12 January 2012**	**16 February 2012**	**12 April 2012**	**14 June 2012 AGM**	**October 2012**
Strategic Overview of Business	Meeting Overview & Context	Meeting Overview & Context	Meeting Overview & Context	Meeting Overview & Context	Meeting Overview & Context
	S41 feedback	S41 feedback	S41 feedback	S41 feedback	S41 feedback
Training & Development	Training & Education: CIPFA Code of Practice	Financial Regulations			
Board Scrutiny	Call-Ins	Call-Ins	Call – Ins	Call – Ins	Call – Ins
			Annual Review of Risk Policy		
Review of Strategies		Treasury Management Strategy Annual Report	Role of Pensions Advisory Panel	CPGB Audit Committee Functions Annual Report	
		Review of Funding Strategy Statement	Procedural Documents Update		
		Annual Review AVC’s			
		Consultation Strategy			
Business	LGPS Reform Proposals	LGPS Reform Proposals Update	LGPS Reform Proposals Update	Appointment of Chair and Vice Chair	LGPS Reform Proposals Update
		Software Sales	Meeting Cycle Dates	Membership of the Authority	Health & Safety Report SLI
		Write Offs		Appointment of Boards and Committees	FoIA Annual Report c

Updated 6 February 2012

South Yorkshire Pensions Authority – cycle of future meetings

	12 January 2012	16 February 2012	12 April 2012	14 June 2012 AGM	October 2012
		Additional meeting of CP&GB			
				Questions in meetings of District Councils	FoIA Publication Scheme
				LGPS Reform Proposals Update	
				Annual Report on Member Training and Development Strategy	
				Web Casting Report	

Updated 6 February 2012

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SOUTH YORKSHIRE PENSIONS AUTHORITY

16 February 2012

Report of Clerk and Treasurer

FINANCIAL REGULATIONS

1. Purpose of the Report

To seek approval to amendments to the Authority's Financial Regulations.

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2. Recommendations

Members are recommended to consider and approve the amended Financial Regulations appended to this report.

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3. Background Information

3.1 Appended to this report is a copy of the Authority's current Financial Regulations showing amendments recommended by officers to Members to:

- reflect changes in the role of Fund Director since his designation as Head of Service;
- amend titles, where appropriate;
- include statements relating to the adoption of recommendations in the *CIPFA Code of Practice – Public Sector Pensions Finance Knowledge and Skills*; and
- make minor improvements.

A copy of the current version of Financial Regulations showing the amendments proposed is annexed to this report for consideration by Members.

4. Implications and risks

4.1 There are no financial, legal or diversity risks arising from this report.

W J Wilkinson
Clerk and Treasurer

Officer responsible: Maureen Oades, Deputy Clerk and Solicitor

01226 772856mvoades@syjs.gov.uk

Background papers used in the preparation of this report are available for inspection at the offices of the Authority in Barnsley.

Other sources and references: None.

PART 4c - FINANCIAL REGULATIONS

Date Approved:	
Date Revised:	February 2012
Date of Next Review:	April 2013
Owner :	Clerk and Treasurer

Contents **Financial Regulation**

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1. INTRODUCTION

1.1 These Financial Regulations (the Regulations) were drawn up by the Clerk and Treasurer as the officer responsible for the Authority's financial affairs.

1.2 References in these Regulations to "the Authority" shall include any Committee (Board), Sub-Committee or officer if the power to act is so delegated.

1.3 The Regulations form the major part of the Authority's financial control framework which comprises:

- Standing Orders - Approved by the Authority;
- Financial Regulations - Approved by the Authority;
- Scheme of Delegation to Officers
- Financial Instructions - Issued by the Clerk and Treasurer in conjunction with the Fund Director to specify the detailed control arrangements required under specific Regulations;
- Procedure Manuals - Issued by Senior Management to specify how systems should operate.

1.4 The main aims of the Regulations are to:

- provide sufficient safeguards for the Clerk and Treasurer to discharge his/her statutory duties;
- ensure that the financial dealings of the Authority are conducted properly and in accordance with best practice;
- afford adequate safeguards to officers of the Authority who are individually responsible for ensuring that their actions comply with the Regulations.

1.5 The responsibility for monitoring the financial control arrangements rests with the Clerk and Treasurer's internal audit staff (see Regulation 6.7).In order to ensure consistency in the application of these Regulations, advice on their interpretation should be directed through the Head of Internal Audit

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1.6 The Regulations, and in particular those imposing financial limits, will be kept under review by the Clerk and Treasurer to ensure that they remain consistent with best practice.

1.7 Any changes to the Regulations can only be made with the approval of the Authority, unless otherwise specified in the Regulations.

2. ROLE AND RESPONSIBILITIES

GENERAL

2.1 In applying these Regulations, the Clerk and Treasurer and the Fund Director will in certain instances, delegate their individual responsibilities to nominated officers who will undertake the duties on their behalf.

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2.2 The Clerk and Treasurer and the Fund Director shall ensure that all staff and third parties where appropriate, comply with the requirements contained in these Regulations.

THE AUTHORITY

2.3 The Authority is ultimately responsible for ensuring that the financial management arrangements are adequate and effective and that the internal control system is effective and will, amongst other things:

- appoint a responsible financial officer (the Clerk and Treasurer);
- approve the financial control framework, including Financial Regulations;
- set a budget and agree a levy;
- monitor actual expenditure against budget;
- determine an affordable borrowing limit having had regard to the Prudential Code for Capital Finance in Local Authorities;
- approve the statement of accounts and publish with it an annual governance statement l;
- maintain an adequate and effective system of internal audit of its accounting records and its system of internal control.

2.4 The Authority will delegate to the Clerk and Treasurer aspects of the financial control arrangements to act on its behalf.

THE CLERK AND TREASURER

2.5 The Clerk and Treasurer is responsible for the proper administration of the Authority's financial affairs in accordance with the provisions of Section 73 of the Local Government Act 1985 and the Accounts and Audit (England) Regulations 2011. In performing this function the Clerk and Treasurer will report to the Authority on the robustness of estimates and adequacy of reserves.

2.6 In fulfilling both his/her statutory and professional duties the Clerk and Treasurer will:

- provide financial advice to the Authority on all aspects of its activity, including the budget, strategic planning and policy making process to ensure efficient, effective and economic use of resources;
- produce the Statement of Accounts in accordance with the appropriate Codes of accounting practice and reporting standards issued from time to time;
- report to the Authority on the robustness of the estimates for the purposes of the budget calculations and the adequacy of reserves;
- report to the Authority where reserves are likely to be inadequate, outlining the reasons for the actions taken;
- ensure that all matters required to be taken into account in respect of the Prudential Code for Capital Finance in Local Authorities are reported to the Authority for consideration;
- establish procedures to monitor and report performance against all prudential indicators if required;
- report to the Authority and/or the external auditor if it appears that the Authority's expenditure is likely to exceed the resources available to meet that expenditure;
- report to the Authority and/or the external auditor any decisions or actions taken (or about to be made or taken) which involve unlawful expenditure;
- ensure that adequate systems and procedures exist to account for all income due and expenditure disbursements made on behalf of the Authority and that controls operate to protect the Authority's assets from loss, waste, fraud or other impropriety;
- advise on the security of assets, including risk management and insurance;
- secure the Authority's banking arrangements;
- provide a treasury management function, including loans and investments, in accordance with the Authority's policy;
- nominate a properly qualified member of staff to deputise should he or she be unable to perform his duties (Deputy Treasurer).

2.7 In addition, in accordance with the delegated arrangements agreed by the Authority under the provisions of the Accounts and Audit (England) Regulations 2011 ("the Accounts and

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Audit Regulations)the Clerk and Treasurer will maintain an adequate and effective internal audit of the Authority's accounting, financial and other processes, including the approval of the strategic and annual audit plans.

2.8 As Head of Service the Fund Director is responsible for:

- preparation of draft revenue estimates each year for submission to the Clerk and Treasurer for approval by the Authority;
- ensuring that the financial administration procedures comply with these Regulations and any Financial Instructions;
- ensuring that no expenditure is incurred unless it is included in the annual revenue estimates or estimates of capital expenditure approved by the Authority;
- the accountability and control of staff
- the security, custody and management of assets including cash and stores;
- the issue and maintenance of Procedure Manuals (as instructions to staff) to supplement as necessary, both these Regulations and any Financial Instructions.

2.9 The Authority has delegated to the Clerk and Treasurer the responsibility for the implementation of the CIPFA Code of Practice (2011) governing the requirements for pensions finance knowledge and skills.

THE MONITORING OFFICER

2.10 The Monitoring Officer is responsible for reporting any actual or potential breaches of the law or maladministration to the Authority and for ensuring that procedures for recording and reporting key decisions are operating effectively.

2.11 The Monitoring Officer in performing his or her duties is authorised to incur expenditure where this is necessary in seeking advice outside the Authority.

3. ACCOUNTING ARRANGEMENTS

3.1 The Clerk and Treasurer is responsible for keeping the principal accounting and costing records of the Authority.

3.2 The following principles must be observed in the allocation of accounting duties in order to maintain division of duties:

- the duties of providing information regarding sums due to or from the Authority and of calculating, checking and recording of these sums, must be separated as completely as possible from the duty of collecting or disbursing them;
- officers charged with the duty of examining and checking the accounts of cash transactions must not themselves be engaged in any of these transactions.

3.3 The Clerk and Treasurer is responsible for producing the Statement of Accounts and shall submit these to the Authority in accordance with the deadlines required by the Accounts and Audit Regulations and the Financial Services Authority.

3.4 The Clerk and Treasurer is responsible for ensuring compliance with the Codes of Practice which the Authority may adopt from time to time. The details of such codes will be issued in the form of Financial Instructions to supplement these Regulations.

4 FINANCIAL PLANS AND BUDGETS

GENERAL

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4.1 The detailed format of and timetable for financial plans, the capital programme and revenue estimates will be determined by the Clerk and Treasurer in accordance with the general directions of the Authority and Codes of Practice which are adopted from time to time.

REVENUE EXPENDITURE AND INCOME

4.2 The revenue estimates for the next financial year will be prepared by the Fund Director in conjunction with the Clerk and Treasurer in accordance with the general directions of the Authority. They will be presented to the Authority for approval accompanied by a report from the Clerk and Treasurer which will specify any variations to the existing budget and policies together with implications for future years.

4.3 The Clerk and Treasurer, the Fund Director and the Head of Pensions Administration may incur expenditure for the supply of goods or materials or the execution of any work or services (excluding grants to voluntary bodies/outside organisations) with an estimated without reference to the Authority or appropriate Board provided that it is within the framework of the Authority's policy, included in approved revenue estimates as set out in these Regulations, and subject to compliance with the Authority's Contract Standing Orders.

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4.4 Expenditure not covered by Regulation 4.3 must be submitted by the Clerk and Treasurer to the Authority or appropriate Board for approval. The report will include details of the financial implications for both the current financial year and 2 subsequent years.

4.5 The Clerk and Treasurer (or officers nominated by him/her) shall ensure that the approved estimates are not overspent.

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4.6 The Clerk and Treasurer shall report on the outturn of income and expenditure to the Authority as soon as possible after the end of each financial year. The report will include details of any diversion of funds. (see virement - Regulation 4.7).

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4.7 Virement

(a) Revenue overspending or additional expenditure on specific budget heads (employees, premises, supplies and services, transport and support services but not debt charges) may be financed by diversions within the approved budget subject to the following directions:

Up to £5,000	- Fund Director (subject to quarterly reporting to the Clerk and Treasurer)
Above £5,000 up to £50,000 *-	In writing by the Clerk and Treasurer.
Over £50,000	- By the Authority or appropriate Board following a report from the Clerk and Treasurer.

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*This amount applies to individual transactions and the sum of transfers for any one purpose.

(b) Diversions must not be used to finance expenditure which will recur in future years without the Authority's prior approval.

(c) If diversion of funds is not possible to meet an unavoidable overspending, the Clerk and Treasurer shall submit a report to the Authority or appropriate Board seeking approval to a supplementary estimate. The Clerk and Treasurer is responsible for advising the Authority or appropriate Board on the financial implications of this course of action as soon as possible.

(d) The Clerk and Treasurer can approve any additional expenditure where the costs are fully reimbursable from other authorities or bodies.

(e) Income received in excess of the overall total income budgeted amount may be used to finance additional expenditure subject to the above limits in (a).

5. FINANCIAL SYSTEMS AND PROCEDURES

5.1 Banking Arrangements

General

(a) The Clerk and Treasurer is responsible for making the Authority's banking arrangements and he/she is authorised to operate such bank accounts as are considered appropriate.

(b) The arrangements shall be reviewed on a regular basis and the Clerk and Treasurer will undertake all negotiations with the Authority's banker(s) regarding banking terms and overdraft facilities.

Cheques and Payment Documents

(c) All cheques are to be ordered only in accordance with arrangements approved by the Clerk and Treasurer, who is to ensure their safe custody, issue and control.

(d) Cheques drawn on the Authority's main bank accounts must either bear the facsimile signature of the Clerk and Treasurer or be signed in manuscript by him/her or other authorised officers approved by the Clerk and Treasurer. All alterations and amendments are to be signed in manuscript by the Clerk and Treasurer or other authorised officer.

(e) All cheques and other payment documents must be despatched by the Clerk and Treasurer unless he has specifically given consent to other arrangements.

(f) Arrangements for the authorisation of payments to be made by automatic transfer of funds from the Authority's bank accounts must be in a form agreed by the Clerk and Treasurer.

Imprest Accounts

(g) The Clerk and Treasurer may make such imprest advances (either in cash or separate bank account) as he considers appropriate to nominated officers for the payment of expenses of the Authority.

(h) The imprest will be operated in accordance with the arrangements specified by the Clerk and Treasurer and issued in the form of a Financial Instruction under the authority of this Regulation.

5.2 Income

(a) The Clerk and Treasurer must ensure that adequate arrangements are made for:

- the financial organisation and accounting to ensure the proper recording of all sums due to the Authority; and
- the prompt and proper accounting of all cash including its collection, custody and deposit.

(b) Save where the charges are fixed by statute, the Authority shall be responsible for determining whether a charge is to be made for any service provided by the Authority. The Clerk and Treasurer shall be responsible for determining the level of charge to be fixed for any service in accordance with the Authority's policies.

(c) Employees of the Authority must not give receipts for moneys received on behalf of the Authority on any form other than an official receipt form.

(d) The procedures for dealing with the raising and despatch of accounts, receipt of payments and cash discrepancies will be specified by the Clerk and Treasurer and issued in the form of a Financial Instruction under the authority of this Regulation.

(e) Personal cheques must not be cashed out of moneys held on behalf of the Authority.

(f) "Sales Ledger" - The writing-off of cash discrepancies and bad debts (save as otherwise provided by the Authority) by the following officers:

- not exceeding £1,000 Fund Director

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- above £1,000 up to £5,000 Clerk and Treasurer

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writing-off of sums in excess of this limit shall be referred to the Authority for approval by the Clerk and Treasurer

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The Authorisations granted under this Financial Regulation shall apply, for example, to the approval of the writing –off of rent/interest, insurance premiums and other property related expenditure due in respect of any investment property but shall not apply to investment losses or payroll overpayments which are subject to Financial Regulations 5.4(d) and 5.8(d) respectively.

5.3 Insurance

(a) The general policy for insurance will be agreed by the Authority having received appropriate advice from the Clerk and Treasurer.

(b) The Clerk and Treasurer is responsible for arranging all insurances and the administration and negotiation of claims.

5.4 Investments, Loans and Cash Flow

(a) The Clerk and Treasurer is responsible for securing the arrangements for the Authority's cash flow, borrowing activities and lending activities, in accordance with the Local Government Act 2003 and the CIPFA Code of Practice on Treasury Management as applicable and the policies agreed by the Authority as amended from time to time.

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(b) All investments will be held in the name of the Authority or the Authority's authorised nominee or its agents. All securities in respect of loans raised will be issued in the name of the Authority.

(c) The Clerk and Treasurer shall prepare a policy document outlining the procedures to be adopted each year for cash flow (treasury management) for approval by the Authority.

(d) Any losses incurred as a consequence of the investment activity in accordance with Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended are reported to the Investment Board and save as specified in Regulation 5.2 (f) above are not subject to the normal debt write off procedure.

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5.5 Negotiated Settlements

The Clerk and Treasurer is authorised to negotiate the settlement of claims which require urgent decisions. Where this sum exceeds £10,000 a report will be submitted to the Authority as soon as possible.

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5.6 Orders for Work, Goods and Services

(a) Orders must be in a form approved by the Clerk and Treasurer and before any order is issued, the authorising officer must ensure:

- that the cost is within an approved estimate or other financial provision;
- compliance with EU and UK legislation;
- compliance with the Authority's Standing Orders relating to Contracts ie. quotations and formal tenders.

(b) Orders must not be split or issued for a value less than known requirements as a means of avoiding compliance with the Authority's Standing Orders and these Regulations.

(c) The control arrangements and administration of the ordering system will be in accordance with the Financial Instruction issued by the Clerk and Treasurer under the authority of this regulation.

5.7 Payment of Accounts

(a) The Fund Director is responsible for the examination, verification and certification of invoices and any other payment vouchers relating to the services and functions under his control.

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(b) The control arrangements and administration of the payment process will be in accordance with the Financial Instruction issued by the Clerk and Treasurer under the authority of this Regulation.

(c) Officers must not authorise any payment or benefit to themselves.

5.8 Salaries, Wages, Pensions, Gratuities and Allowances

(a) The payment of salaries, wages, pensions, gratuities and allowances to all current and former employees of the Authority shall be made by the Clerk and Treasurer under arrangements approved and controlled by him/her.

(b) Appointments of all employees must be made in accordance with the regulations of the Authority and the approved establishments, grades and rates of pay and within the budgetary provision.

(c) Time sheets and other records in a form and containing information required by the Clerk and Treasurer for the recording and payment of salaries and wages must be signed in manuscript by officers authorised by the Clerk and Treasurer. Officers must not authorise their own payment documents.

(d) The writing-off an overpayment of salary to an employee where there is a death-in-service and the overpayment of pension on the death of a pensioner may be approved by the following officers:

- not exceeding £500	Head of Pensions Administration or Pensions Manager (Payroll and Support)
-above £500 not exceeding £1,000	Fund Director
above £1,000 not exceeding £5,000	Clerk and Treasurer

Writing-off sums in excess of this limit shall be referred to the Authority for approval.

(e) The control arrangements and administration of the payment process will be in accordance with the Financial Instruction issued by the Clerk and Treasurer under the authority of this Regulation.

5.9 Travelling, Subsistence and Other Allowances

(a) All claims for payment of car allowances, subsistence allowances, travelling and incidental expenses shall be prepared by the claimant personally in a form approved by the Clerk and Treasurer and in accordance with any Schemes of Conditions of Service adopted.

(b) The control arrangements and administration of the payment process will be in accordance with the Financial Instruction issued by the Clerk and Treasurer under the authority of this Regulation.

(c) Officers must sign their claims as correct and confirm that it complies with the approved Schemes. Officers must not authorise their own claims for payment.

6. RISK MANAGEMENT AND CONTROL OF RESOURCES

6.1 General

It is essential that robust, integrated systems are developed and maintained for identifying and evaluating all significant risks to the Authority.

6.2 Risk Management

(a) The Authority is responsible for approving the risk management policy statement and strategy and for reviewing the effectiveness of risk management. Risk management must be embedded in the Authority's decision making processes.

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(a) . A voluntary fund is any fund which, although not officially owned by the Authority, is controlled or administered by an employee of the Authority by reason of their employment. The funds shall be operated in accordance with any guidance notes issued by the Clerk and Treasurer.¶
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(b) The Clerk and Treasurer shall keep a record of all such funds, including their purpose and nature. Where appropriate, the accounts shall be audited annually by a competent, independent person and shall be submitted with an audit report to the appropriate body, within 6 months of the accounting year end.¶

(b) The Clerk and Treasurer is responsible for preparing the Authority's risk management policy statement and strategy and promoting it throughout the Authority. The Clerk and Treasurer and the Fund Director are responsible for advising the Authority on corporate risks facing the Authority.

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(c) The Clerk and Treasurer and the Fund Director must ensure that they regularly review risks, develop appropriate risk management controls and ensure that risk registers are maintained.

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6.3 Internal Control

(a) Internal control refers to the systems of control devised by management to help ensure the Authority's objectives are achieved in a manner that promotes economical, efficient and effective use of resources and that the Authority's assets are safeguarded.

(b) The Clerk and Treasurer is responsible for advising on effective systems of internal control. These arrangements need to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. They should ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use.

(c) It is the responsibility of senior officers to establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their performance targets. Senior officers should also ensure that such internal control arrangements are regularly reviewed for adequacy and effectiveness.

(d) The Clerk and Treasurer must ensure that the system on internal control is reviewed at least annually and that an Annual Governance Statement is submitted to the Authority for approval and inclusion in the Statement of Accounts.

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6.4 Asset Security

(a) The Fund Director is responsible for the accountability and control of staff and for maintaining proper security at all times for all buildings, stocks, stores, furniture, equipment, cash etc. under his/her control.

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(b) The Clerk and Treasurer shall specify maximum limits for cash holdings which shall not be exceeded without his/her express permission.

(c) Keys to safes and similar receptacles containing cash and valuable property must be carried on the person of those officers responsible at all times. A register of keys and their holders shall be maintained by the Fund Director. The loss of any such keys must be reported to the Fund Director immediately.

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6.5 Data Security

In accordance with the provisions of the Data Protection Act 1998, the Clerk and Treasurer shall maintain up to date registrations of personal data held on behalf of the Authority. The Clerk and Treasurer shall nominate an officer to act as Data Protection Officer for the Authority.

6.6 Gifts, Hospitality, Secondary Employment

Further information about gifts, hospitality and relationships with clients and contractors is contained in the code of conduct.

Gifts

(a) The receipt of personal gifts should be discouraged. If an officer, during the course of, or as a result of, official duties, receives any personal gift, other than one of only token value, the matter must be reported to the Clerk and Treasurer who will:

- decide if the item is to be returned or forwarded to some charitable cause;
- notify the donor what has happened to the gift and explain the reason why gifts should not be offered or sent in the future.

(b) A central record must be maintained by the Fund Director of all gifts (other than those of a token value) received by and offered to staff and the action taken.

Hospitality

(c) Hospitality must only be given or accepted where it is on a scale appropriate to the circumstances, not extravagant and justifiable as in the public interest. It must be apparent that no cause could reasonably arise for adverse criticism or suggestion of improper influence about the acceptance of the hospitality.

(d) The circumstances and the type of hospitality is to be recorded in a central record maintained by the Fund Director.

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Secondary Employment

(e) Officers who are, in accordance with their conditions of service, permitted to carry out private or other paid work must not do so during the Authority's time, nor must they use the Authority's premises, resources or facilities for the execution of such work without the prior approval of the Fund Director (Clerk and Treasurer where the officer is the Fund Director)

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(f) Officers must declare to the Fund Director in writing the nature and duration of such private work (Clerk and Treasurer where the officer is the Fund Director).

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(g) No stationery or publicity material is to indicate that the officer is an Authority employee nor should the address or telephone number of the Authority be stated.

(h) Officers must not work for any current or prospective supplier or contractor to the Authority.

(i) In cases where an officer's duties involve contractual arrangements with any prospective supplier or contractor who employs a close relative or friend of the officer, the officer must notify the Clerk and Treasurer of the details and preclude himself/herself from the arrangements.

6.7 Internal Audit

(a) Internal Audit is an assurance function that provides an independent and objective opinion to the Authority on risk management, control and governance by evaluating their effectiveness in achieving the Authority's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic and effective use of resources (Source - *the Chartered Institute of Public Finance and Accountancy 2006).*

(b) The Clerk and Treasurer has delegated responsibility to maintain a continuous, adequate and effective internal audit of the Authority's accounting records and its system of internal control in accordance with the Accounts and Audit Regulations.

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(c) Due to the scope of internal audit work, the Fund Director has a direct interest and will be consulted on planned work and will be able to request specific systems audits and value for money audits.

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(d) The Clerk and Treasurer will approve the plans of internal audit work and any changes required due to changing circumstances.

(e) The key conditions for Internal Audit are that:

- It is independent in its planning, operation and reporting;
- It supports the Clerk and Treasurer in fulfilling his/her statutory responsibilities;
- The Head of Internal Audit has direct access to the Fund Director the Monitoring Officer and Members of the Authority;
- The service is provided in accordance with the Code of Practice for Internal Audit in Local Government, issued by the Chartered Institute of Public Finance and Accountancy.

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(f) The objectives of Internal Audit are to:

- Review and appraise the systems of financial and management control and the corporate governance arrangements, including the management of risks and safeguarding of assets;
- Assess the accuracy of financial and other published information;
- Ascertain the extent of compliance with procedures, policies, regulations and legislation;
- Review whether functions are being carried out as planned and that objectives and goals are being met;
- Undertake value for money reviews to assess the economy, efficiency and effectiveness with which resources are employed;
- Work in partnership with Senior Officers, particularly in relation to value for money projects and other review functions;
- Work in partnership with the Audit Commission in providing a comprehensive audit function.

(g) The Clerk and Treasurer or his/her authorised representative will, subject to satisfactory proof of identity, have authority to:

- Enter at all reasonable times on any premises or land occupied or controlled by the Authority (excluding investment properties).
- Have access to all property, records, documents and correspondence relating to any financial and other activities of the Authority.
- Require and receive such explanations as are necessary concerning any matters under examination.

- Require any employee or agent of the Authority to produce cash, stores or any other Authority property under his/her control.

(c) The Clerk and Treasurer shall make arrangements to ensure that he/she is informed, via the Head of Internal Audit, as soon as is practicable whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores or other property of the Authority or any suspected irregularity in the exercise of the functions of the Authority, irrespective of whether the matter is the subject of criminal investigation.

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(d) The Clerk and Treasurer must ensure that a reply is made to any audit report within a reasonable period of time, but in any case within 6 weeks of the date of the communication from the Head of Internal Audit.

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6.8 Inventories

(a) The Fund Director shall ensure that an inventory is maintained of furniture, fittings, equipment, plant and machinery and he/she shall be responsible for carrying out at least an annual check of all such items against the inventory and for taking action in relation to surpluses and deficiencies and noting the inventory accordingly.

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(b) The writing- off of items may be approved by the following officers:

- not exceeding £1,000	Fund Director
- not exceeding £5,000	Clerk and Treasurer

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The writing-off of items in excess of this limit shall be referred to the Authority for approval.

(c) The Fund Director is responsible for ensuring that the Authority's property is not removed otherwise than in accordance with the ordinary course of the Authority's business or used otherwise than for the Authority's purposes.

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(d) Surplus or obsolete inventory items shall be disposed of as economically advantageously as possible.

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6.9 Property

(a) The Fund Director is responsible for securing the arrangements for management of the Authority's property, including maintenance.

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(b) The arrangements will include the maintenance of property terriers by agents on behalf of the Authority which will record:

- locations and plan references;
- the purpose for which held;
- purchase/lease details;
- rents payable and particulars of tenancies granted.

6.10 Theft and Burglary

The Clerk and Treasurer shall arrange for all cases of theft or burglary arising in any department/division/section to be notified to him/her via the Head of Internal Audit, including those where criminal investigations are being undertaken.

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6.11 Preventing Fraud and Corruption

(a) The Clerk and Treasurer is responsible for the development and maintenance of an anti-fraud and corruption strategy.

(b) The Fund Director is responsible for:

- Ensuring that staff are aware of the requirements of the Bribery Act 2011; and
- That sound internal controls are maintained to prevent bribery occurring in connection with the conduct of the Authority's business affairs.

7. CIPFA Code of Practice: Public Sector Pensions Finance Knowledge and Skills

7.1 In September 2011, CIPFA published a Code of Practice governing the requirements for pensions finance knowledge and skills, which will have effect from April 2012. In accordance with the recommendations within the Code, the Authority has:

(a) Delegated responsibility for the implementation of the requirements of the Code to the Clerk and Treasurer.

(b) The Clerk and Treasurer in implementing the Code's recommendations will:

- Prepare and submit to the Authority for approval draft Member and Officer Training Strategies, which take account of the CIPFA Pensions Knowledge and Skills Frameworks; and

- Prepare and submit each year a report on how these Strategies have been put into practice throughout the financial year.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

16 February 2012

Report of the Clerk and Treasurer

MEMBERS' TRAINING AND EDUCATION: EXTERNAL CONFERENCES AND SEMINARS

1. Purpose of the Report

To bring to Members' attention a training opportunity

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2. Recommendations

That Members consider whether or not they wish to register for the conference

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3. Information

3.1 Notice has been received of the following training opportunity:-

LGPS Annual Trustees Conference – Looking Ahead to 2014 and What That May Bring

The ninth annual trustees' conference will take place over the 14th and 15th June at the Hilton Hotel in Blackpool. The conference will continue with its popular lunchtime to lunchtime format. At this stage the programme has yet to be finalised but it is envisaged it will focus very heavily on the LGPS 2014 project.

The conference fee is all-inclusive. This includes all meals and overnight accommodation at a total cost of £475 plus VAT per delegate.

3.2 If any member wishes to enrol for the conference please contact Gill Garrety in the Joint Secretariat on 01226 772806.

4. Implications

1. **Financial** - Travel to and from the event has to be organised separately and is not budgeted for.
2. **Legal** - None
3. **Diversity** - None
4. **Risk –** It is an expectation of the Myners' Principles that Members are adequately trained to carry out their responsibilities on the Authority. Accordingly, the Authority has determined that Members' training be approached prudently but vigilantly. There is, of course, a risk that if Members are not properly or

adequately trained the performance and reputation of the Authority might be impaired.

W J Wilkinson
Clerk and Treasurer

Officer responsible:
Gary Chapman - Head of Pensions Administration
Phone 01226 772954
E-mail: gchapman@sypa.org.uk

Background papers used in the preparation of this report are available for Inspection in the Administration Unit

SOUTH YORKSHIRE PENSIONS AUTHORITY

16 FEBRUARY 2012

Report of the Clerk and Treasurer

TREASURY POLICY AND STRATEGY STATEMENT 2012/2013

1) Purpose of the report

To seek Members' approval of the treasury management procedures and strategy followed by the Authority.

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2) **Recommendation**

It is recommended that the Authority:-

a) **adopts the Annual Investment Strategy and recommendations set out in Appendix I; and**

b) **in accordance with Section 3(1) of the Local Government Act 2003 approves an Affordable Borrowing Limit, on a rolling basis for the forthcoming year and two successive years as outlined in Appendix II, of £250,000 being the maximum amount the Authority can afford to borrow; and**

c) **keeps the above under review.**

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3) Background information

3.1 Local authority treasury management activities are governed by Section 12 of Part I, Chapter I of the Local Government Act 2003 ("the Act") which provides that a local authority may invest "for any purposes relevant to its functions under any enactment, or "for the purposes of the prudent management of its financial affairs". Pursuant to section 15 of the Act, in carrying out its functions, a local authority is required to have regard to relevant guidance and regulations issued by the Secretary of State. Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ("the Regulations"), Regulation 24 requires local authorities to have regard to the Chartered Institute of Public Finance and Accounting (CIPFA) publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Code") issued in November 2009. The Code covers the whole range of treasury management issues, including the fundamental principles for making and managing investment and requires local authorities to prepare an annual treasury management strategy ("the Annual Strategy"). Under the Code treasury management is defined as:

"the management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of the optimum performance consistent with those risks".

3.2 Amongst the primary requirements of the Code are the need to establish and maintain a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities and sets out how they will be achieved; approval of the Annual Investment Strategy; regular reporting on activities during the year and establishment of the delegation by the Authority of its responsibilities to other bodies and its officers. For this Authority the delegated scrutinising body is the Corporate Planning and Governance Board.

3.3 The Authority manages its cash itself. The customised benchmark allocation for cash has not changed during the year (it remains at 0%) nor has the tactical range (0%-10%). Some cash is always held in order to service creditors etc and the pension payroll. Even though in absolute terms the amount of cash held at any one time might run to tens of millions of pounds it is normally going to form a relatively small percentage of total Fund assets. This is one reason why the CIPFA Code has not been universally adopted by Local Government Pension Scheme ("LGPS") administering authorities for local authority pension funds. The specialised nature of pension fund monies does not lend itself easily to the Code: this is especially so since the funds themselves have no borrowing powers.

3.4 The Authority has never utilised its borrowing powers other than for temporary overdraft purposes. The borrowing powers (i.e. in its own right and not on behalf of the Fund) have always been reviewed annually and resolved upon separately by the Authority. The current governing legislation is the Act and the requirements are more fully referred to in section 4 below. Please note that the Act does not apply to pension funds, being controlled by a separate regulatory regime which is administered by the Department for Communities and Local Government (CLG).

3.5 Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009: SI 2009/3093 ("the 2009 Regulations") the administering authority has a power to borrow on behalf of the LGPS fund it administers in certain circumstances.

3.6 The management of the Fund itself is conducted in accordance with the Authority's Statement of Investment Principles which has been drawn up in accordance with extant Regulations.

3.7 This report embodies the principles of the CIPFA Code and the Act. There are two appendices: Appendix I, referring to the Annual Investment Strategy and Appendix II referring to the Affordable Borrowing Limit.

4) <u>The Local Government Act 2003</u>

4.1 Although pension fund monies are specifically excluded from the investment regulations [The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003] made under the Local Government Act 2003 Members should note that the Authority is subject to the capital expenditure requirements (Part 8, section 32). CLG will issue guidance under the Act from time to time and local authorities must have regard to the guidance.

4.2 Present guidance stresses the need for strategies to be prudent and defines a prudent investment policy as one having two objectives: achieving first of all security (protecting the capital sum from loss) and then liquidity (keeping the money readily available for expenditure when needed). The generation of investment income is distinct from these prudential objectives. In other words, it is reasonable to seek the highest yield consistent with the two priorities but only after they have been met.

4.3 Section 3 (1) of the Act requires the Authority to set and keep under review an 'Affordable Borrowing Limit' (ie how much money it can afford to borrow) and to do so by reference to the CIPFA Prudential Code. The Limit is to be set, on a rolling basis, for the forthcoming year and two successive financial years. The Clerk and Treasurer can confirm that the Limit has been kept under review.

4.4 Subsection (8) provides that a local authority's function under subsection (1) shall be discharged only by the authority; i.e. Members only can determine the affordable borrowing limit.

4.5 Part 1 of the Act introduced a prudential capital finance system called the prudential code for capital finance in local authorities. The key objectives of the "Prudential Code" are to ensure within a clear framework that:-

- capital investment plans of local authorities are affordable, prudent and sustainable
- treasury management decisions (notably borrowing for capital expenditure) are taken in a manner which supports affordability, prudence and sustainability

Affordability is implied in relation to the council tax. Prudence and sustainability is implied in relation to external borrowing.

4.6 To demonstrate that authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and factors to be taken into account. The Code does not include suggested limits or ratios as these are for the local authority to set. The prudential indicators for the forthcoming year and following years must be set before the beginning of the year. They may be revised at any time, following due process, and must be reviewed and revised, if appropriate, for the current year when the prudential indicators are set for the following year.

4.7 Section 5 of the LGA 2003 contains the power for an authority to borrow temporarily against future income yet to be received by it provided the delayed receipt of such future income was not taken into account in the setting of the affordable borrowing limit. This power is thought to apply to the Authority by virtue of Regulation 32 of the Local Government (Capital Finance and Accounting) (England) Regulations 2003.

4.8 The Authority must have regard to both the guidance issued by CLG and the CIPFA Treasury Management Code when preparing its Annual Investment Strategy (AIS). CLG recommends that the AIS be approved at the equivalent level of full council and should be approved before the start of the financial year. Under the current cycle of Authority meetings this meeting is the appropriate one. The AIS is included within the attached Statement.

4.9 Other than the statutory obligation to set an Affordable Borrowing Limit the Authority is not materially affected by the Practice or Prudential Code though if it had a capital expenditure programme it would be different. The Authority's levy, issued in accordance with The Levying Bodies (General) Regulations 1992, finances the payment of statutory compensation and is not a function of capital financing decisions. The Authority does not borrow to fund either annual running costs or capital investment.

4.10 Whilst the Authority has no need to undertake external borrowing the Act still appears to impose a duty to set an Affordable Borrowing Limit. Last year's ABL was set at £250,000 and there is not thought to be any need to amend that limit.

4.11 In terms of delegation the Authority receives this report and approves policy and strategy. The Corporate Planning and Governance Board receives quarterly updates upon the implementation of the policy and strategy. Day to day management is entrusted to the Clerk and Treasurer.

4.12 The Clerk and Treasurer, as s151 Officer, has overall responsibility for the execution and administration of treasury management decisions and is responsible for:

recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;

submitting regular treasury management policy reports;

receiving and reviewing management information reports;

reviewing the performance of the treasury management function;

ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

ensuring the adequacy of internal audit, and liaising with external audit;

the appointment of external service providers.

4.13 In summary, therefore, the Authority employs a treasury management strategy in which investments are managed broadly in accordance with the Code of Practice for Treasury Management in Public Services published by CIPFA.

5) <u>Retail banking services</u>

I reported in 2010 that the South Yorkshire Joint Secretariat, acting on behalf of all four South Yorkshire joint authorities, had embarked upon a review of the authorities' banking arrangements and this might lead to a formal tender exercise being undertaken. In fact, the exercise has been put on hold pending further clarification of the position regarding the future requirements of the Police and Crime Commissioner. The contract with Co-op Bank was extended to cover 2011-12 and it is expected to be further extended to cover 2012-13. At the moment the present "pooling" arrangements for the other three joint authorities are assumed to continue. If that should change it is probable that separate tenders would then need to be initiated.

6) <u>Implications</u>

6.1 Financial

There are no implications not otherwise mentioned within the report.

6.2 Legal

It is not thought that there are any legal implications.

6.3 Diversity

There are no diversity implications.

6.4 Risk

This Authority is the formal decision-making body for treasury management matters and has responsibility to ensure that adequate risk management processes are in place. This it discharges by establishing a treasury management policy and ensuring that it is regularly monitored by the Corporate Planning and Governance Board. There are potential reputational and financial risks that could arise from non-compliance with the Act and Regulations. It should also be noted that the ratings issued by credit rating agencies are only a means of assessing creditworthiness and are open to error and interpretation.

W. J. Wilkinson
Clerk and Treasurer

Officer responsible:
John Hattersley, Fund Director.

Contact telephone: 01226 772873

Background papers used in the preparation of this report are available for inspection at the offices of the South Yorkshire Pensions Authority in Barnsley

Other sources and references: Bevan Brittan; CIPFA; CLG; Sector Treasury Services

APPENDIX I

SOUTH YORKSHIRE PENSIONS AUTHORITY

TREASURY MANAGEMENT: ANNUAL INVESTMENT STRATEGY

A) Policy Statement

1) Introduction

1.1 Treasury management can be defined as the management of the Authority's cash flow, its borrowings and its investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.

1.2 The Authority's treasury management operation is relatively simple compared to that of a conventional local authority. It essentially revolves around the depositing of surplus monies (ie pending permanent investment) with approved institutions.

1.3 This Strategy is constantly monitored and if deemed necessary may be replaced by a revised strategy. The circumstances warranting a revised strategy may vary but likely triggers could be changes in legislation, changes to interest rate expectations or changes to underlying investment market conditions and money market liquidity. However, the Strategy should not be formally reviewed just because of changes to purely technical circumstances. It is to be treated as a flexible document with sufficient delegations to allow officers to effectively manage the cash balances of the Authority and Fund.

2) Treasury Management Operation and Objectives

2.1 The activities of the treasury management operation cover:-

- Lending
- Cash flow forecasting and management
- Managing the underlying risk associated with the Fund's cash balances
- Consideration, approval and use of new financial instruments and treasury management techniques
- Liaison with brokers, the Authority's bankers, and other financial institutions

2.2 The overall objectives of the Authority are to achieve the optimum return consistent with minimising risk, with the overriding principle being to maintain the Authority's and Fund's capital.

2.3 Currently, investments are restricted to a limited number of organisations which enjoy a credit rating of F1 or better for short term debt (see 3.4 below).

2.4 Under the CIPFA Code procedures for the formulation of treasury management strategy are to be set and approved each year. This involves, inter alia, forecasting sums available for investment determined annually in advance and periods of investments, determined by the forecast interest rate movements, and the need to hold cash to meet contingencies. However, because of the short term nature of the Fund's cash balances (the allocation in the benchmark presumes that the Fund will normally be fully invested in the stock markets etc.) these decisions are taken as part of the greater asset allocation exercise which considers the Fund's overall disposition. This is under constant review within the constraints laid down by the customised benchmark. Therefore, most deposits under normal circumstances are fixed for periods of not more than three months. The majority of monies are invested on call, weekly or monthly terms. If market conditions suggest that it would be beneficial for the Authority to lend longer, such loans are directly related to account settlement, real estate or payroll requirements or liabilities i.e. are determined by overall Fund requirements rather than money market considerations. The maximum length of temporary investments will not, in any case, exceed 364 days. The borrowing of monies purely to invest or on-lend and make a return is unlawful and will not be engaged in.

2.5 Officers employed in treasury management activities have proper working relationships with external advisors and brokers and have the appropriate level of experience. Members involved in the scrutiny of treasury management issues are encouraged to avail themselves of relevant training wherever possible.

2.6 Quarterly updates on treasury management matters are presented to the Corporate Planning and Governance Board. If this Strategy is approved at today's meeting it will be published on the Authority's website.

3) <u>Approved Instruments and Organisations for Investment</u>

3.1 The Authority manages its monies in compliance with the statutory requirements. Within the CLG guidance there are definitions of "local authority", "investment", "long-term investment" and "specified investment".

3.2 Under Government guidance, specified investments are categorised as those offering both high security and high liquidity and must be sterling dominated, maturing in less than one year and be made either with UK Government, local authorities or institutions with high credit ratings as determined by the Authority.

3.3 A non-specified investment is one not covered by the previous definition and is subject to greater potential risk. CLG has confirmed that building societies and similar investments are covered by this paragraph and has stated that there is no intention to discourage authorities from using non-specified investments. The aim is simply to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies that are not highly credit-rated.

3.4 The Authority uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies – Fitch, Moodys and Standard and Poors, forming the core element. The service does not only rely on the current credit ratings of counterparties but also uses the following as overlays:-

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This is a service which the Authority would not be able to replicate using in-house resources.

3.5 This service provides an independent assessment by professionals of the overall credit quality of an institution. Weekly reviews of the credit ratings ensure that the Authority's criteria are maintained and the Authority is alerted to changes on a daily basis. Officers also utilise other rating information provided by other providers when appropriate and available and are constantly reviewing other potential sources of information. Officers are aware of and monitor the position regarding the UK banking system support package and the credit ratings attached to the banks that are covered.

3.6 The Authority can currently utilise the following instruments:-

- Deposits with banks, building societies, Debt Management Office or local authorities (and certain other bodies) for up to 364 days
- Certificates of deposits (CDs) with banks and building societies for up to 364 days
- Money market funds.

The Authority itself does not lend: all lending is Fund money.

3.7 The borrowers dealt with during the last ten months (to end January 2012) are shown in Appendix III. The amount invested with any one institution is limited. All loans must take due cognisance of the amount involved and the quality of the borrower in both absolute and relative terms to the whole lending book.

3.8 The lending limit for specified investments with a short term credit rating of F1 or better was increased from £10m to £15m in October 2011. At the same time it was agreed that, subject to obtaining prior approval from the Chair and Vice-Chair, the limit could be extended to £20m. The same limits apply to non-specified investments i.e. the Authority can lend to the top twenty Financial Services Authority (or equivalent FATF regulator) regulated building societies, or those with assets in excess of £1bn, up to a unit limit of £10m. These restrictions, therefore, apply to the Authority's principal bankers (i.e. Co-operative Bank and HSBC). Officers regularly review the credit rating criteria the Authority uses and have concluded that in the circumstances the current approach is appropriate.

3.9 The Authority has a deposit facility with the UK Debt Management Office which is an executive agency of HM Treasury. This facility has no limit on deposit size but internal procedures require that the use of the facility over a £20m limit be reported to the next available meeting of the appropriate Board.

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3.10 The Local Authorities (Capital Finance and Accounting) (Amendment)(England) Regulations 2004 [SI No 534] clarified the use of money market funds and CLG has confirmed that this Authority is eligible to utilise them. The Authority has approved investment in such funds up to a maximum limit of £10m into any one fund and up to a maximum of 50% of total lent monies at any one time.

3.11 Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009: SI 2009/3093 the administering authority has a power to borrow on behalf of the LGPS fund it administers in certain circumstances.

4) Overdraft

4.1 It is proposed that an overdraft limit of £250,000 is agreed with the Authority's clearing bank, the Co-operative Bank plc with effect from 1 April 2012: this is the same as last year. The current interest rate on authorised overdrafts is officially 2% above the base rate. This facility is very rarely used. It is a contingency for unexpected events or to facilitate short term allocations.

4.2 I can report that the Authority has had no difficulty in terms of overdraft limits formerly set, nor, are any difficulties envisaged for current or future years. This view takes into account current commitments, existing plans and proposals in the approved budget.

5) Delegated powers

5.1 The Authority's Standing Orders and Financial Regulations have delegated to the Clerk and Treasurer the responsibility for all aspects of the operation of the Authority's bank accounts. He is also authorised to invest any monies belonging to or under the control of the Authority subject to the Authority's general directives. The Clerk and Treasurer may delegate his power to invest to members of his staff.

5.2 The Authority should approve the Annual Investment Strategy annually and before the start of the financial year.

5.3 The Affordable Borrowing Limit must be approved for each financial year and must be determined by the Authority. It should not be delegated to a committee and cannot be delegated to officers. It has to be kept under review.

5.4 It is the Clerk and Treasurer's responsibility to implement and monitor the Strategy and Limit once set. The Clerk and Treasurer should consider revising and resubmitting it as and when required; draft a strategy report for annual consideration by the Authority and to monitor and report upon any material divergence from the strategy and recommend revisions if and when required.

B Implementation

6) <u>2012/13 Immediate Considerations</u>

6.1 The factors expected to affect treasury matters during the forthcoming year are:-

	£M	%
Borrowing Requirement 2012/2013	None	
Current Bank of England Bank Rate (Feb 12)		0.5%
Current Investment Rates estimated range (overnight) for £10m deposit size		0.43-0.55%

7) <u>Prospects for Interest Rates</u>

The prospects for interest rates in the UK are expected to be as follows:-

a) Short Term Interest Rates

Bank Rate has been held at 0.5% since March 2009 and is not likely to rise in the foreseeable future. The Bank of England is unlikely to increase rates whilst the economic situation remains fragile.

b) Longer Term Interest Rates

The ongoing sovereign debt crisis is but one factor which has caused forecasters to delay their anticipated increase in interest rates. This time last year saw some commentators predicting an increase in interest rates to 0.75% by now. Those same forecasters are now contemplating an increase by the end of the third quarter this year. There is still no consensus over the speed of global economic recovery or the degree to which western government austerity programmes will dampen consumer confidence or hinder employment prospects. There is growing speculation that Greece might default on its loans during this quarter but it is not clear what the ramifications will be for the Eurozone or for those economies that trade with the Eurozone if she does. The Bank of England continues to believe that inflation will be back to near target within a year to two time horizon.

8) <u>Short term considerations</u>

8.1 Capital Finance

The Authority is not expected to have a requirement for financing new capital expenditure.

8.2 Debt Rescheduling

The Authority has no debt.

8.3 Temporary Investments

Cash flow requirements and changes in base rates will be closely monitored and investments made accordingly:

a) kept short if it is anticipated that interest rates will rise, enabling returns to be compounded more frequently

b) weighted to longer periods, with a view to enabling returns to be maintained, in a falling market.

Investments will be restricted to those funds and institutions which meet the criteria laid down in the Annual Investment Strategy.

8.4 Utilisation of Amounts Set Aside for Debt Redemption

The Authority has no debt.

8.5 Other issues

8.5.1 The Authority has deposits with certain Icelandic banks or their subsidiaries and determined to write-off both capital and interest due within the 2008/09 accounts. Following the decision of the Icelandic Supreme Court in October 2011 that UK local authority deposits enjoyed priority creditor status the winding-up boards of Glitnir and Landsbanki have proceeded on that basis. Both the anticipated recovery rates and distribution periods are different for the two banks and in the case of Glitnir still subject to potential legal objections. The timing of recoveries remains uncertain. The advice received from the lawyers acting on behalf of the Authority, via the LGA litigation group, is not to make any public statement but to rely upon information released by the winding-up boards into the public domain.

8.5.2 Members are reminded that the Authority is a member of the LGA organised litigation group and that the Clerk and Treasurer has been authorised to take all necessary steps to participate in and progress the group claims to maximise the Authority's potential for recovery of the deposits. The Clerk and Treasurer is basing his decisions on a balanced range of success factors, including legal merits, financial implications and reputational risks and monitors the costs of the litigation process in the context of those factors. The options are reassessed throughout the process. Members are aware that this process involves information in respect of which a claim to legal privilege could be maintained in legal proceedings.

APPENDIX II

SOUTH YORKSHIRE PENSIONS AUTHORITY

DETERMINATION OF AFFORDABLE BORROWING LIMIT 2012/2013

1) Background Information

1.1 Under Section 3(1) of the Local Government Act 2003, those local authorities covered by the Act, must determine on a rolling basis, for the following financial year and two successive years, an affordable borrowing limit which is the amount of money which the Authority can afford to borrow.

1.2 This limit must be determined by the Authority and cannot be delegated to committees or officers.

2) Proposed Limit for 2012/2013

2.1 In accordance with the Act, the following determinations are proposed for 2012/2013:

a) an overall borrowing limit of £250,000
b) the proportion of interest payable at variable rates should be set at 100%

2.2 It should be noted that it is open to the Authority to vary the above limits at any time during the year.

APPENDIX III

BORROWING INSTITUTIONS

MARCH 2011 to JANUARY 2012

DMO was used on one occasion. The maximum amount lent on a single occasion was £10m.

Banking institutions rated F1 or above as per Fitch Ratings Ltd

SANTANDER UK CORP BANKING	F1
BANK OF NOVIA SCOTIA	F1+
BARCLAYS BANK PLC	F1+
COMMONWEALTH BANK OF AUSTRALIA	F1+
COVENTRY BUILDING SOCIETY	F1
LANDESBANK BADEN-WUERTTEMBERG	F1+
LANDESBANK BERLIN AG	F1+
NATIONAL BANK OF CANADA	F1
NATIONAL WESTMINSTER BANK	F1
NATIONWIDE BUILDING SOCIETY	F1+
NORDDEUTSCHE LANDESBANK	F1
OVERSEAS CHINESE BANKING CORP	F1+

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SOUTH YORKSHIRE PENSIONS AUTHORITY

16 February 2012

Report of the Clerk and Treasurer

FUNDING STRATEGY STATEMENT REVIEW

1. Purpose of the Report

To seek adoption of a slightly revised version of the Funding Strategy Statement.

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2. Recommendations

Members are recommended to adopt the revised Funding Strategy Statement with effect from March 2012.

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3. Information

3.1 The 2008 LGPS (Administration) Regulations require the Authority to prepare, maintain and publish a written statement setting out the Fund's funding strategy. In doing so, regard must be had to the guidance published by CIPFA and the Authority's own Statement of Investment Principles.

3.2 The Funding Strategy Statement (FSS) was last reviewed in March 2011 as part of the 2010 actuarial valuation process and the implementation of new employers' contribution rates from April 2011.

3.3 The FSS requires a full review of the Statement to take place not less frequently than every three years to coincide with the completion of a full actuarial valuation. However, it is appropriate for the Authority to monitor the progress of the funding strategy between valuations in case any significant event has taken place that might impact on or warrant a change in the funding strategy.

3.4 The Statement has been reviewed and no changes are considered to be required at this time other than to incorporate the revised customised asset allocation benchmark which became effective in October last year. The revised version is attached as an appendix. The next full review will take into account preparations for the 2013 actuarial valuation. There are likely to be significant changes because it will need to reflect the restructuring of the Scheme from April 2014.

4. Implications

- **Financial** - None
- **Legal** - None
- **Diversity** - None
- **Risk** The Authority is the formal decision-making body for all matters regarding the LGPS and needs to be in a

position to monitor and respond to changes that affect the working of the Scheme. There is an unquantifiable reputational risk associated with failing to do so.

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Background papers used in the preparation of this report are available for inspection in the Pensions Administration Unit.

SOUTH YORKSHIRE PENSIONS AUTHORITY

SouthYorkshirePensionsAuthority

South Yorkshire Pension Fund

Funding Strategy Statement (FSS) as at March 2012

This Funding Strategy Statement (FSS) has been prepared by South Yorkshire Pensions Authority (the Authority) to set out the funding strategy for the South Yorkshire Pension Fund (the Fund), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 ("the Administration Regulations") (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

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

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

Benefits payable under the Local Government Pension Scheme are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), "the Benefit Regulations"). Changes to the benefits under the Scheme took place from April 2008. The required levels of employee contributions are also specified in those Regulations.

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Employer contributions are determined in accordance with the Administration Regulations (principally Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Fund should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

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

The purpose of this Funding Strategy Statement is:

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

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

3. Aims and purpose of the Pension Fund

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and

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- maximise the returns from investments within reasonable and clearly understood risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and

- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses,

as defined in the Benefit and Administration Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

4. Responsibilities of the key parties

The Authority should:

- collect employer and employee contributions
- calculate benefits correctly and ensure that they are paid promptly
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties
- monitor all aspects of the Fund's performance and solvency and amend FSS/SIP, and
- ensure that administration costs are kept to a minimum.

The Individual Employer should:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- maintain policies on discretions and exercise them within the regulatory framework

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- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

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

5. Solvency issues and target funding levels

To meet the requirements of the regulations the Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay.

The key financial assumptions making up the funding strategy and as adopted for the 2010 actuarial valuation are:

Past Service (current yields basis)	31 March 2010
Asset valuation	Market Value
Asset out-performance assumption (pre-retirement)	2.0%
Asset out-performance assumption (post-retirement)	1.0%
Discount rate (pre-retirement)	6.5%
Discount rate (post-retirement)	5.5%
Pension increases (CPI Price Inflation)	3.0%
Long-Term Earnings inflation	4.75%
Future Service (long term basis)	
Discount rate (pre-retirement)	6.7%
Discount rate (post-retirement)	6.7%
Pension increases (CPI Price Inflation)	3.0%
Earnings inflation	4.75%

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A full description and summary of the main financial and demographic assumptions adopted for the 2010 actuarial valuation are shown in the formal report produced by the Actuary for the valuation.

Underlying these assumptions are the following two tenets:

- that the Fund and the major employers are expected to continue for the foreseeable future; and

- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

The current actuarial valuation of the Scheme is effective as at 31 March 2010. The results of the valuation indicate that overall the assets of the Scheme represented 79% of projected accrued liabilities at the valuation date.

Each employer in the Fund has their own unique contribution rate. Past practice had been to express this as a percentage of their pensionable payroll, incorporating a common contribution rate for future benefit accrual adjusted by a further percentage to account for any significant demographic and/or financial variances plus any past service deficit or surplus. Traditionally this had worked well in a climate of steadily increasing employer payrolls but recent experience of changes in employers' workforces (and thus payrolls) supported the need to re-examine this approach. Accordingly, contribution rates since 2005 have been (and will continue to be) expressed in terms of a percentage of payroll for future benefit accrual plus or minus capital payments in respect of any deficit or surplus adjustments. Such an approach brings the following advantages:

- the presentational value of the transparent separation of costs between future benefit accrual and past service liabilities

- greater stability for employers in their budgeting for pension costs, and

- greater certainty of cashflow for the Authority for investment planning

However, the Authority recognises that from an operational point of view some employers may find difficulty with this approach. To alleviate any problems that might be caused the Authority modifies this approach by requiring the actuary to certify the rates in terms of minimum values. By doing so, employers are able to convert the capital payments into a percentage of their payroll thus reverting back to an all-inclusive percentage rate, if they so wish. This is on the proviso that, whatever the actual mechanics employed by individual employers, the sum paid during the Fund's financial year meets, or exceeds, the minimum value required of them. A further advantage of taking this modified line is to enable any employer to advance their return to 100% funded over a shorter period, should their finances permit them to contribute more than their minimum contribution.

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The capital payments in respect of any deficit identified by the Actuary at the valuation date (or surplus adjustments) will be subject to annual increases in line with the Consumer Prices Index i.e. the annual Pension Increase Orders. The required capital payment (or surplus adjustment) identified at the valuation date as at 31 March 2010 therefore will be increased by the 2011 Pension Increase Order of 3.1% for 2011/12. Those for 2012/13 and 2013/14 will be increased by the 2012 and 2013 Pension Increase Orders as required.

However, as part of an agreed phasing pattern, for the four district councils, the annual inflationary increase to the required capital payments identified at the valuation date will not be applied for the period 2011/14. The underpayment in deficit contributions arising as a result of the annual indexation freeze for the district councils will be identified by the actuary as part of the actuarial valuation as at 31 March 2013 and recovered by the Fund over the period 1 April 2014 to 31 March 2017 as part of the contribution requirements certified following the 2013 valuation.

With regards to costs for ill-health or voluntary early retirement, for certain employers in the Fund, the actuary has again included an allowance, based upon the employer's workforce and discretionary policies, within the certified contribution rate which is published in the valuation report and monitored by the Authority. Additionally, any "strain" costs generated on redundancy, efficiency or flexible retirements are collected by additional capital payments over a maximum of three years. For those employers for whom the certified contribution rate excludes an allowance for ill-health or voluntary early retirement costs, the Administering Authority will require the Fund's actuary to review that employer's contribution rate on all early retirements occurring during the period of the rates and adjustments certificate issued by the Actuary following the 2010 valuation..

The Authority, following consultation with interested parties, has adopted the following objectives to achieve the funding target:

- the underlying objective is to return the assets of the Fund to a position where they can meet 100% of its liabilities by March 2036

- within this overall target, scheduled and resolution bodies and those admission bodies that are backed by scheduled body guarantees are allowed to extend their recovery period up to the maximum period of recovery, or such shorter period as they may individually decide. Any extension in recovery period up to the maximum is only permissible in circumstances where stability and not a reduction in the level of deficit recovery lump sum contributions would be the outcome (compared to the levels certified at the 2007 actuarial valuation).

- those "transferor admission bodies" operating outsourced services under a contract which expires within that period are limited to the lifetime of that

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contract unless the body is in surplus at the valuation date in which case the maximum recovery period will be applied.

- due to their weaker covenant, admission bodies that are not backed by a guarantee will adopt a shorter recovery period (up to March 2031) subject to the following provisos;

- those with a defined (or expected) lifespan shorter than that period are limited to that shorter period, such known (or expected) events to be declared by the admission body as soon as practicable

- no allowance for the increased investment return allowance during the recovery period will be made (see later comments)

In determining the deficit recovery period(s) the Authority has had regard to:

- the responses made to the consultation with interested parties on the FSS principles

- the recognition that it would be impractical for each employer to have a bespoke recovery period and therefore some grouping of employer categories is appropriate

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

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

6. Link to investment policy set out in the Statement of Investment Principles

The results of the 2010 valuation show the liabilities to be 79% covered by the current assets, with the funding deficit of 21% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the Authority, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts and is known as the "Least Risk Portfolio" or LRP.

Investment of the Fund's assets in line with the LRP would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

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If, at the valuation date, the Fund had been invested in the LRP, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 2010 valuation would have been significantly higher, by approximately 34% and the declared funding level would be correspondingly reduced to approximately 59%.

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

In order to ensure as far as possible that its investment strategy is appropriate for the Fund's liabilities the Authority has adopted a diversified asset allocation. The strategic asset allocation is adopted only after analysing the Fund's liability structure in detail. The Fund takes managed risks in order to achieve the performance it needs to meet its objectives. The Authority seeks to understand and control the risks rather than trying to eliminate them. The returns achieved from investment will, to a considerable degree, reflect the risks taken. The risks are assessed in relation to the Fund's liability structure. The adoption of a strategic asset allocation policy combined with detailed monitoring of tactical management relative to targets and constraints increases the likelihood of achieving the intended outcome. This needs to be done in such a way that allows managers sufficient flexibility to enhance returns. The Authority is well aware of this fine balance and will always have due regard to diversification, the return potential, liquidity, management costs and other impacts when determining what it regards as an appropriate level of risk. It is important to recognise that it is not possible to control the absolute return on investments. Over the longer term, however, by recognising the types of risks outlined the Authority seeks to achieve the returns required to achieve the objectives of this Statement.

The current benchmark (reproduced below) was approved in March 2011 but only adopted from October 2011. It is a natural development of the previous benchmark which arose out of the 2007 actuarial valuation. When determining and reviewing the benchmark strategy the Authority carefully considers the expected return on investments and has concluded that in the longer term the return on equities should be greater than that from other assets. The benchmark return has been comfortably ahead of both price and earnings inflation over recent periods though the Authority is aware that, over the shorter term, returns may vary significantly from one period to another. The Authority regularly reviews its policies but its long term objective is to ensure that the investment returns achieved will be at least in line with the assumptions underlying the actuarial valuations and, therefore, be appropriate to the liabilities of the Fund. An interim review following the 2010 actuarial valuation concluded that this was the case.

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Bonds	**23**		
UK Gilts	0		
UK Index Linked	12	+-3	9-15
UK Corporate Bonds	7	+-3	4-10
Emerging Market Bonds	2	+-3	0-5
High Yield Bonds	2	+-3	0-5
Quoted Equities	**60**		
UK	20	+-5	15-25
Overseas	40	+-5	35-45
NAm	11.5	+-5	6.5-16.5
Europe	9.5	+-5	4.5-14.5
Japan	3.75	+-5	0-8.75
Pacific	8.0	+-5	3-13
Other	7.25	+-5	2.25-12.25
Private Equity	**3.5**	**+-5**	**0-8.5**
Absolute Return	**3.5**	**+-5**	**0-8.5**
Property	**10**	**+-3**	**7-13**
Cash	**0**	**+10**	**0-10**

****

Geographical split within overseas equities: 29% North America; 24% Western Europe; 9% Japan; 20% Pacific Basin ex Japan; 18% Emerging Markets.

The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the Fund at the valuation, this equates to an overall asset out-performance allowance of 1.4% ahead of the LRP p.a. The Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the current SIP.

During the recovery period, an increased investment return (IIR) of 2.5% p.a. ahead of the LRP has been allowed for in the calculation of the required deficit recovery contributions for certain employers in the Fund (the asset-out performance for the remaining employers being 1.4% p.a.). The Authority believes that the additional allowance is a reasonable "best estimate" allowance for asset out-performance during the recovery period, based on the investment strategy as set out in the SIP and following analysis undertaken by the Actuary.

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The additional allowance is applied to those employers which the Authority deems to be of sufficiently high covenant to support the anticipation of investment returns during the recovery period.

7. Identification of risks and counter-measures

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

The Authority has been advised by the actuary that one of the Fund's greatest risks to its funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 1.4% per annum assumed, on the basis of the current liability profile.

The chart below shows a "funnel of doubt" funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower). The graph adopts the 2010 actuarial valuation results as a starting point, and allows for the planned contributions into the Fund based on the valuation and funding strategy. The chart assumes median investment returns in line with "best estimate" market expectations and variability of those returns broadly in line with historic experience.

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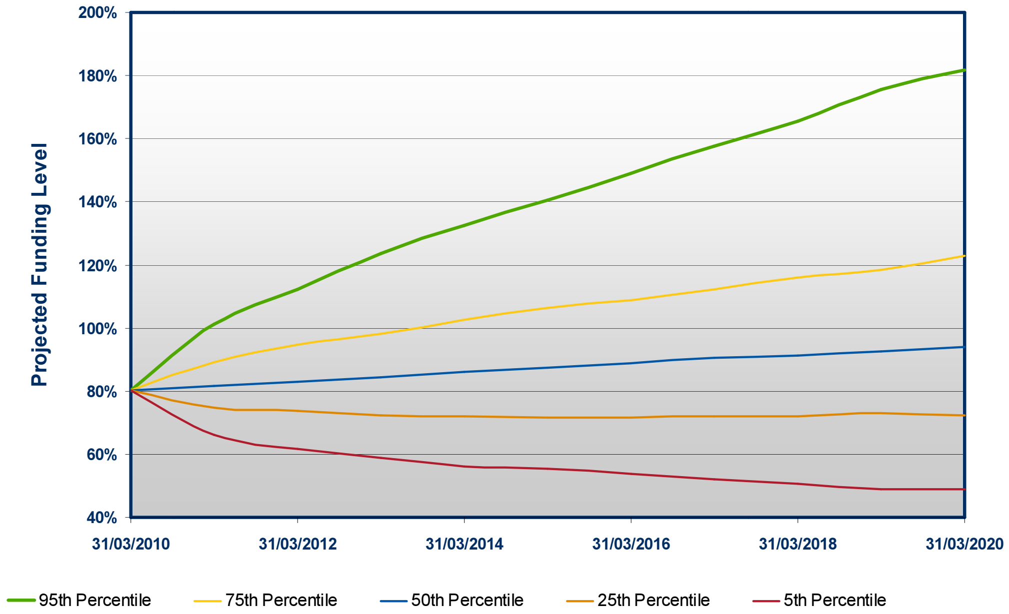

The CIPFA guidance identifies the following key risks:

Financial

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

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements

Regulatory

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

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Governance

- Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large numbers of retirements)
- Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- In relation to the overall governance of the Fund the Authority's governance statement can be found at: http://www.sypensions.org.uk/AZ/G/tabid/282/language/en-GB/Default.aspx

8. Monitoring and Review

The Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employers and trade unions representing the Fund membership.

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

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

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

SOUTH YORKSHIRE PENSIONS AUTHORITY

16 February 2012

Report of the Clerk and Treasurer

ADDITIONAL VOLUNTARY CONTRIBUTIONS: POSITION STATEMENT

1. Purpose of the Report

To provide Members with information on the providers, funds, performance and member numbers associated with the AVC facilities offered to LGPS members by the South Yorkshire Pension Fund.

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2. Recommendations

Members are recommended to note the contents of the report.

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3. Background Information

3.1 At the Member Advisory Panel meeting of November 2011 a paper was requested that set out the current position of the Authority in relation to its Additional Voluntary Contribution facility.

3.2 Since 1988 LGPS Administering Authorities have been allowed, through Regulations, to offer an additional voluntary savings facility to Scheme members in order to allow them to increase their retirement benefits.

3.3 Originally the facility was designed simply to allow members to save an additional and separate fund of money through a third party provider. That Fund then had to be converted to an income at retirement. Tax relief was, (and still is), granted on any contributions made.

3.4 Tax, finance and Regulation changes over the years have amended the original premise of AVCs and members can now take all or part of their AVC funds as tax-free cash as well as having access to better value annuities from the LGPS rather than from the provider or another insurance company.

3.5 Originally, like other LGPS funds, SYPA only offered one provider choice and three simple Investment routes with that provider (i.e. a deposit account linked to building society interest rates, a with-profits approach and a managed fund route). There was no choice of funds within the managed approach.

3.6 There are no costs to SYPA involved in the provision of the facility and the Authority makes no contributions to members' AVC savings.

3.7 At the moment only a few LGPS funds offer Members the choice of more than one provider: many funds limit the choice to just one firm. It is a specialist market and there are only really three potential providers of LGPS AVCs:

Prudential, Scottish Widows and Standard Life. Equitable Life is, of course, closed to new business.

3.8 There is a detailed explanation about AVCs on the Fund website and this includes hyperlinks to the designated providers.

4 Equitable Life

4.1 The Authority's first choice of provider back in 1988 was Equitable Life. At the time this was one of the UK's most venerable and reputable financial companies and was chosen, on advice, for its mutual status and financial integrity and strength.

4.2 The subsequent problems at Equitable Life from the mid 1990 have been well documented both in the press and in other reports and presentations to the Authority

4.3 By the year 2000 the problems with Equitable were serious enough to prompt a review of the Authority's position and in 2001 an alternative provider, Scottish Widows, was appointed to become the default AVC provider in South Yorkshire. The majority of members elected to divert future on-going contributions to the new provider rather than continue paying to Equitable. Funds already built up were left with Equitable pending a decision on action by SYPA.

4.4 Over the following eighteen months the Authority worked hard to provide AVC fund holders with information and choices about the Equitable situation. The end result was that about 700 With Profits Fund holders participated in a bulk transfer of funds away from Equitable to Scottish Widows on a reduced penalty basis to that which would otherwise have applied to individuals.

4.5 This left about 1400 active and deferred members with AVC funds with Equitable, some of whom were holding policies not affected by the crisis, that is, managed funds or deposit accounts. This number has reduced over the years as people have left or retired. Currently the Authority has 500 active members with Equitable funds of some kind.

4.6 Following the bulk transfer further letters were sent to Equitable holders to provide them with updated information and to encourage them to keep their positions under review. However, whether through apathy or a fear of losing out on any future compensation that might become payable, no interest was shown in moving funds away and people have therefore remained with Equitable, (although not necessarily paying any more to them), by default rather than by a positive election to do so.

5. Scottish Widows

5.1 From April 2001 to September 2009 Scottish Widows was the default AVC provider to the Fund although some concerns had arisen about the quality of their administration and service on occasion.

5.2 As part of a general review of the AVC facility and also in response to the withdrawal of tax relief on some AVC life cover products, including that offered by Scottish Widows, The Prudential Assurance Company were appointed as the alternative provider to Scottish Widows in 2009.

5.3 This achieved several objectives in that it provided more member choice, it provided a life cover product that was still able to attract tax-relief on contributions thus making the premium price competitive and it provided competition to Scottish Widows who would be driven to improve.

6. Prudential

6.1 Prudential are the big players in the public sector AVC industry and in particular in the LGPS. They have a large dedicated service group who are able to provide members with bespoke information in a variety of formats. They can arrange one on one surgeries, group presentations, retirement seminars for employers, on line services for employees and employers and an expertise and an understanding of what LGPS clients require.

6.2 Prudential currently have relationships with about 70% of LGPS Funds and are perceived to be the provider of choice in the public sector.

7. AVC fund choices by provider

7.1 Scottish Widows, by agreement with SYPA, offer the following investment choices for South Yorkshire members:

- Cash Fund
- Indexed Stock Fund
- Unitised With-profits Fund
- Environmental Fund
- European Fund*
- Global Equity Fund
- North American Fund*
- UK Equity Fund*
- South Yorkshire North Atlantic Option
- South Yorkshire Lifestyle Option

*these fund choices are only available to members using either the South Yorkshire North Atlantic or Lifestyle Options.

7.2 Prudential offer the following investment routes to South Yorkshire members:

- Cash Fund
- Deposit Fund
- Retirement Protection Fund
- Fixed Interest Fund
- Index Linked Fund
- With–Profits Fund
- Property Fund
- Discretionary Fund
- International Equity Fund
- Global Equity Fund
- Socially Responsible Fund
- UK Equity Passive Fund
- UK Equity Fund

8. Membership statistics by provider and fund

8.1 The following tables provide a breakdown of the numbers of AVC account holders in The South Yorkshire Fund by provider and investment route.

Equitable Life

Deposit Account	With-Profits	Managed Fund
86	496	149

Of the 694 accounts still held with Equitable Life 447 are held by active members of the Fund although the vast majority of these no longer pay into them. Some members have funds in more than one investment route but the information is not held in a form that will easily identify the actual number of individuals that hold these multiple accounts.

Scottish Widows

Cash	Indexed Stock	With-Profits	Environmental	European	Global Equity	North American	UK Equity
172	52	784	65	47	72	52	122

Scheme members currently have 1080 policies lodged with Scottish Widows with a fund value totalling £5,927,325. Of these policies 253 are receiving regular contributions, 640 are single premium policies, (the majority as a result of the bulk transfer from Equitable Life), and 187 are policies that were receiving regular premiums but where the member has now stopped paying. As can be seen from the figures in the table above the 1080 policies are made up from a large number of investments as a result of some members electing to have their money spread over a range of investment options. A small number of members have elected to invest in options that are not detailed above and which are not normally an option for South Yorkshire members. Generally speaking this is where members have either transferred from a Fund where this option was available or where independent advice has been taken and the member has specifically requested the route in question. In the interests of customer satisfaction both Scottish Widows and the Authority have taken a relaxed attitude to these requests.

Prudential

Cash	Dep'	Ret'mnt Protect'	Fixed Int'	Index Link'	With-Profits	Prop'	Discret'y	Int' Equity	Global Equity	Socially Respon'	UK Eq' Passive	UK Equity
42	14	15	15	15		3	13	14	6	4	14	4

Prudential has been the alternative AVC provider for just over two years following their appointment in September 2009. As at 31 March 2011 90 members held policies in the investment routes shown in the table above. Some members have policies that cover a spread of investments. In the two year plus period in which Prudential have been the alterative provider many more members than the 90 in question at the end of March 2011 have taken out policies with Prudential for short-term gain and then taken the benefits from them. The majority of these have been members who have had some warning or knowledge of forthcoming early retirement exercises at their organisations and have taken the opportunity to invest the maximum allowable in the time left before retirement. There is no money in this type of business for Prudential and this is mentioned further in the “comment” section at the end of the report.

9. Provider Investment Performance

9.1 Because the Authority only acts as a facilitator of AVCs the arrangements regarding AVCs are a matter for the provider and the individual member and the Authority is not responsible for the selection or performance of the funds. It is not appropriate, therefore, for the Authority to comment upon the investment performance of the funds offered by a provider.

10. Comment

10.1 Members need to be aware that the Authority **does not** recommend:

- That AVCs are beneficial, suitable or appropriate
- That either Prudential or Scottish Widows are suitable or appropriate companies in which to invest
- That any of the funds and investment routes available are suitable or appropriate for members

10.2 Members need to be aware that the Authority **does** recommend:

- That Members use the free Independent Financial Advice Service before making a decision to pay AVCs.

10.3 The Authority acts as a facilitator only in these matters. Unfortunately, there will be some members who will seek to blame the Authority if their investment fails to match their expectations. Counterbalancing this is the fact that currently, the majority of new AVC accounts are short term in duration as members approaching retirement or seeking early retirement look to maximise their tax-free cash element and view the investment return as being the tax relief they receive on their contributions. However, Prudential have recently announced measures to curb the amount of short-term investment business they handle by imposing penalties on policies of less than 5 years duration. The Authority will need to assess what communications are necessary to members in order to ensure that anyone taking out a policy with Prudential after July 2012 fully understands that they may suffer a financial penalty if benefits are drawn within 5 years.

10.4 Members should note that since April 2008 it is possible for LGPS members to buy additional pension by paying additional contributions up to a maximum of £5000 per year into the pension fund providing that the contract is completed before their 65th birthday.

11. Implications

- **Financial** - There is no financial involvement of the Authority in the provision of this service.
- **Legal** - None
- **Diversity** - None
- **Risk** - Please refer to the comments set out in section 10 above.

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Background papers used in the preparation of this report are available for inspection in the Pensions' Administration Unit.

SOUTH YORKSHIRE PENSIONS AUTHORITY

16 February 2012

Report of the Clerk and Treasurer

CONSULTATION STRATEGY: MEMBER SATISFACTION RATING

1. Purpose of the Report

To advise Members of the current level of customer satisfaction amongst Scheme members and to set a performance target for 2012/13.

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2. Recommendation

Members are recommended to set a general performance target for customer satisfaction.

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3. Background

3.1 Members will recall that the Authority achieved the Customer Service Excellence Award in February 2011. In securing the award we were compliant in 56 out of the 57 categories reviewed by the external assessor. In his report he commented that we were only partially compliant in the following sub-criteria,

'We set challenging and stretching targets for customer satisfaction and our levels are improving'

3.2 In discussions with the assessor we pointed to the fact that we consulted with all our stakeholders over a range of different subject areas and that we always had a high satisfaction rating. Whilst this was accepted the assessor commented that although our performance was very good we did not have a target level to achieve and measure our performance against.

3.3 In order to assess whether our customer satisfaction levels are improving and provide Members with an opportunity to set a target for us to attain we first needed to establish the current level of customer satisfaction. To achieve this we have concluded all our recent surveys, regardless of the topic, with an overall satisfaction rating type question.

4. Results and Target Setting

4.1 The results from the surveys where we asked for an overall customer satisfaction rating are as follows,

Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
48.6%	50.4%	0.6%	0.4%

4.2 In anticipation that our overall satisfaction level would be high (99%) we deliberately created a degree of satisfaction to allow for a target to be set that would require movement from one level of satisfaction to the other. However Members may be satisfied with a single level of satisfaction and seek us to simply have zero less than satisfied customers.

4.3 Members are requested to set a customer satisfaction target for 2012/3 with a review to take place in April 2013.

4. Implications

- **Financial** - None
- **Legal** - None
- **Diversity** - None

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Background papers used in the preparation of this report are available for inspection in the Pensions Administration Unit.

SOUTH YORKSHIRE PENSIONS AUTHORITY

16 February 2012

Report of Clerk and Treasurer

SOFTWARE SALES

1. Purpose of the Report

To seek Members approval in principle for the sale of in-house developed pensions systems to other LGPS Administering Authorities

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2. Recommendations

Members are recommended to approve as a matter of principle the sale of internally developed goods and services to other local authorities on a commercial basis.

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3. Background

3.1 The Authority's Information Technology development team has been in existence for the last fifteen years and during that time they have developed, to the Authority's specification, IT systems that make a significant contribution towards the Fund's excellent performance and efficiency. Although the systems and expertise have evolved over time the Authority now has a suite of programs that underpin almost every aspect of its work.

3.2 Local Government Pension Scheme administration is a specialised field and although undertaken nationally by eighty-nine separate administering authorities there has always been a close working relationship between funds both at regional and national level. Officers frequently meet to discuss technical, communication, governance and innovation issues.

3.3 Over the years the Authority has provided many demonstrations to colleagues showing them what the team has developed and how work efficiency has improved as a result. Such information has been freely shared in order to assist other funds and provide them with ideas so that they can seek to develop similar systems for themselves.

3.4 Recently the in-house team has developed a specific program which is a ready-made solution to managing information to and from the wide range of different employers within the pension fund. This development has received a lot of interest and that has now been translated into a firm offer to purchase this program and another one of our systems from another LGPS administering authority.

4. Selling IT Systems – Risks and Rewards

4.1 The most obvious reward is that selling our IT systems will generate an income which could be used to fund future IT developments or reduce the cost of administration of the pension fund. The preferred approach would be to provide a licence to the potential client (for a one-off fee) coupled with an annual maintenance contract which would provide them with system upgrades and help-desk support. A further option which could be considered would be to use our network resources to host the service. This would save them considerable hardware costs and would generate even greater income for the Authority.

4.2 The potential for sales across the LGPS is significant. It is known that there are few alternatives in the market that can compete with the systems that the in-house team have developed: this is especially true for the program mentioned above in 3.4. However, the Authority is not a commercial enterprise and servicing and supplying an external client would be a challenge. There is, of course, a risk that we might not meet the client's expectations or that in order to satisfy the client we might not be able to maintain the high standard of performance for our internal users.

4.3 Discussions have taken place with the potential client about these concerns. Officers are confident that the team can complete the project without incurring any extra costs or disruption to the service to our users. The potential client understands that this would be a new venture for the Authority and is willing to accept that there may be some snagging along the way. The client acknowledges that the price quoted reflects this risk.

4.4 Despite the comments above officers would still prefer to exercise caution and treat this sale as a 'Pilot' project and review our future strategy in light of actual experience. The intention would be to produce a full review report for Members to consider the Authority's future strategy.

5. Legal Issues

5.1 Advice has been taken from law firm Browne Jacobson on two questions,

1. Is SYPA legally able to sell the IT systems that have been developed?
2. What are the tax implications of selling these systems?

5.2 The legislation governing local authority trading of goods and services is varied and complex. The fact that the Authority was created by Statutory Instrument and is not a 'traditional' local authority complicates the matter further. However, the advice we have received suggests that the Local Government (Miscellaneous Provisions) Act 1976 allows the Authority to legally sell the IT systems it has developed and to make a profit.

5.3 The legal opinion also suggests that the Authority may qualify for a tax exemption from Corporation Tax, Income Tax and Capital Gains Tax. VAT will need to be charged. These issues need to be confirmed with HMRC.

6. Implications

- **Financial** - This project would generate a one-off licence fee and annual support maintenance income.
- **Legal** - See section 5

- **Diversity** - None
- **Risk** - Risk to our own service delivery and reputational risk if we fail to deliver

Officer responsible:
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Background papers used in the preparation of this report are available for inspection in the Pensions Administration Unit.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

16 FEBRUARY 2012

Report of the Clerk and Treasurer

ADDITIONAL MEETING OF THE CORPORATE PLANNING AND GOVERNANCE BOARD

1) Purpose of the report

To consider a suitable date for an additional meeting of the Corporate Planning and Governance Board.

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2) **Recommendation**

That the Authority agrees a date for an additional meeting of the Corporate Planning and Governance Board.

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3) Background information

3.1 The next meeting of the Corporate Planning and Governance Board is due to be held on 17 May 2012. An additional meeting of the Board is required as the Board needs to consider the Internal Audit Strategy and Annual Plan before its implementation in April 2012.

3.2 Members are asked to consider and agree on one of the dates below:

5th March at 2pm
7th March at 11am
20th March at 2pm
21st March at 11am
22nd March at 11am
27th March at 2pm
28th March at 11am

4) Implications

4.1 There are no financial, legal or diversity implications arising from this report.

W J Wilkinson
Clerk and Treasurer

Officer responsible:-
Gill Garrety, Member Services Officer
Telephone contact 01226 772806

Background papers used in the preparation of this report are available for inspection at the offices of the Authority in Barnsley.

Other sources and references: None

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