SOUTH YORKSHIRE
PENSIONS AUTHORITY

Authorised and regulated by the
Financial Conduct Authority

Steve Pick CPFA
Clerk and Treasurer

18 Regent Street
Barnsley
South Yorkshire
S70 2HG

www.southyorks.gov.uk

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 21 November 2013 at 10.00 am for the purpose of transacting the business set out in the agenda.

S Pick
Clerk and Treasurer

This Matter is being dealt with by: Gill Garrety   Tel: 01226 772806
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Distribution

Councillors K Goulty (Chair), R Wraith (Vice-Chair), D Baker, E Butler, J Campbell, R Ford, M Lawton, K Richardson, K Rodgers, L Rooney, A Sangar and P Wootton

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SOUTH YORKSHIRE PENSIONS AUTHORITY

21 NOVEMBER 2013 AT 10.00 AM AT THE OFFICES OF THE SOUTH YORKSHIRE JOINT SECRETARIAT, 18 REGENT STREET, BARNSLEY

Agenda: Reports attached unless stated otherwise

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2	Announcements	
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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).	
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SOUTH YORKSHIRE PENSIONS AUTHORITY

10 OCTOBER 2013

PRESENT: Councillor K Goulty (Chair)
Councillor R Wraith (Vice-Chair)
Councillors: D Baker, E Butler, B Ford, M Lawton, K Richardson, K Rodgers, L Rooney, A Sangar and P Wootton

Trade Unions: G Warwick (GMB) and F Tyas (UCATT)

Officers: S Pick (Clerk and Treasurer), J Hattersley (Fund Director), G Chapman (Head of Pensions Administration), I Baker (Pensions Manager), R Bywater (Principal Policy and External Relations Officer) and A Shirt (Senior Democratic Services Officer)

P Middleman (Mercer Ltd)

Dr J Miller (Chair of Sheffield Climate Alliance, Agenda Item 3 Only)

Apologies for absence were received from Councillor J Campbell and G Boyington

1 APOLOGIES

Apologies for absence were noted as above.

2 ANNOUNCEMENTS

The Chair informed the meeting that Dr Joan Miller, Chair of the Sheffield Climate Alliance would be addressing the Authority at agenda item 3 'Urgent Items'.

The Clerk and Treasurer informed Members that Roy Gillson, a former Investment Advisor to the Authority had died last week. Mr Gillson's funeral would take place at 12 noon on Tuesday 15 October at St Alkelda Church in Giggleswick.

Members paid tribute to the work carried out by Mr Gillson on behalf of the Authority and requested the Clerk and Treasurer to send a letter of condolence to Mr Gillson's family.

3 URGENT ITEMS

Dr Joan Miller, Chair of Sheffield Climate Alliance, presented a petition calling upon the Authority to publicly:

1. Review their fossil fuel investments and assess the risk to their financial strategy from continuing to invest in the 'carbon bubble'.

2. Consult their pension fund members about the ethics of investing in fossil fuels that hold high financial and climate risks, and about reinvestment in renewable energy.

RESOLVED – That Members:-

i) Receive the petition presented by Sheffield Climate Alliance;

ii) Request the Fund Director to prepare a report for consideration at the Investment Board meeting on 12 December 2013 regarding the points raised in the petition; and

iii) Agree to provide a written reply to the Sheffield Climate Alliance following the Investment Board meeting on 12 December 2013.

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

RESOLVED – That agenda item 12 ‘Actuarial Valuation Update – Mercers’ now be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 MINUTES OF THE ANNUAL AUTHORITY MEETING HELD ON 20 JUNE 2013

RESOLVED – That the minutes of the Annual Authority meeting held on 20 June 2013 be signed by the Chair as a correct record.

7 MINUTES OF THE ORDINARY AUTHORITY MEETING HELD ON 20 JUNE 2013

RESOLVED – That the minutes of the Ordinary Authority meeting held on 20 June 2013 be signed by the Chair as a correct record.

8 MINUTES OF THE SPECIAL AUTHORITY MEETING HELD ON 22 AUGUST 2013

RESOLVED – That the minutes of the Special Authority meeting held on 22 August 2013 be signed by the Chair as a correct record.

9 MINUTES OF THE SPECIAL AUTHORITY MEETING HELD ON 20 SEPTEMBER 2013

RESOLVED – That the minutes of the Special Authority meeting held on 20 September 2013 be signed by the Chair as a correct record.

10 WORK PROGRAMME

The Authority considered its Work Programme to 20 March 2014.

RESOLVED – That the contents of the Work Programme be noted.

11 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

Councillor Rodgers reminded Members that Doncaster MBC were in the process of setting their 3 year budget, highlighting that the Secretary of State for Education had agreed to set up a Children's Trust to look at the child protection function in Doncaster, which he understood would become an Admission Body to the Fund.

12 QUARTER 1 PERFORMANCE SNAPSHOT REPORT

The Head of Pensions Administration gave an update on Quarter 1 Performance Snapshot Report 2013/14.

During the quarter the Authority had processed 16003 cases, of which 99.9% were on target; performance was the same as the previous quarter, with 796 more cases being processed. No employees had left the organisation during the quarter. Staff training was up to date on all aspects of the training plan. There had been 17 new employers registered for EPIC, 200 employers had now registered for EPIC. 81% of registered employers who submitted information did so via EPIC.

There had been 578 advisory sessions held during the quarter, numbers were down by 186 on the previous quarter. No complaints had been received during the period. There had been 14 new employers (9 Academies, 4 Transferee Admission Bodies and 1 Community Admission Body). During the quarter, there had been 2 employers terminations (both Community Admission Bodies).

At the end of June 2013 there were 291 participating employers, of which, 229 had active members.

RESOLVED – That the report be noted.

13 BOARD CHAIRS' REPORT

The Chair reminded Members that the Fund Annual Meeting would be held this evening at 5:30 pm at The Source Skills Academy, Meadowhall Way, Sheffield, urging all Members to attend.

14 LGPS REFORM PROPOSALS UPDATE

The Head of Pensions Administration provided the Authority with a verbal update in respect of LGPS 2014.

Members were informed that the Authority had now received the new Benefit Regulations; officers were currently working through the Regulations to make sure what the Authority was expecting was largely in these.

The Regulations did contain a provision that removed the option for members to pay additional voluntary contributions and then take them as 100% tax free cash at retirement. It was understood that the Treasury had demanded this, as the option did not apply in the other public sector schemes. From a funding point of view this was beneficial to the Authority, but this was potentially bad news for scheme members who had started to pay AVC's with the sole purpose of taking 100% cash. CLG were apparently discussing potential protections for existing contributors with stakeholders.

The Authority had submitted replies to all of the Government's recent consultations on the 2014 LGPS reforms.

Members were informed that the Authority had recently received a further consultation on Academies, which the Authority would need to examine and respond upon.

Councillor Lawton asked for an update in relation to the plans to discontinue the Councillors Pension Scheme on 31 March 2014.

The Head of Pensions Administration informed Members that there was likely to be an announcement from the Minister imminently regarding the Councillors Pension Scheme.

RESOLVED – That the update be noted.

15 FREEDOM OF INFORMATION ACT 2000: ANNUAL REPORT

A report of the Clerk and Treasurer was submitted which provided the Authority with the eighth annual update on the number of Freedom of Information requests received. During the period 9 November 2012 to 16 August 2013 the Authority had received 20 requests for information, the majority of which related to investment enquiries. All requests were dealt with within the 20 day limit required by the Freedom of Information Act. The Authority spent at least 22.5 hours of officer time in completing requests.

Councillor Lawton suggested that if the Authority were continually receiving requests for information on specific subjects, then information could be published on the Authority's website in order to reduce the number of FOI requests being received.

The Clerk and Treasurer agreed to consider Councillor Lawton's suggestion.

RESOLVED – That the report be noted.

16 COMPLIANCE WITH MYNERS' PRINCIPLES: SELF-ASSESSMENT

A report of the Clerk and Treasurer was submitted to inform Members of the outcome of the self-assessment against the Myners' Principles. In October 2011, Members had adopted a self-assessment system and agreed to use a template to gauge compliance. Members had been requested to complete and return the forms to the Clerk and Treasurer at the end of the financial year (March 2013). Ten of the twelve forms had been returned. The results had been positive, and no areas of concern or development needs had been identified.

RESOLVED – That Members:-

i) Note the contents of the report.

ii) Confirms its commitment to this process for this financial year.

iii) Agree to any development needs arising from the results.

17 AMENDMENT OF DATE OF INVESTMENT BOARD MEETING

A report of the Clerk and Treasurer was submitted requesting the Authority to consider amending the date of the Investment Board meeting currently scheduled for 22 May 2014.

The Authority had discovered that this date clashes with the European and Local Elections.

RESOLVED – That Members agree to the Investment Board meeting being held on 26 June 2014 in order to avoid a clash with the European and Local Elections.

18 EXCLUSION OF PUBLIC AND PRESS

RESOLVED – That, under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Scheduled 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

19 ACTUARIAL VALUATION UPDATE - MERCERS

The Authority received a presentation from Mercers which provided an update on the potential decisions on calculating the liabilities and preparing the Funding Strategy Statement, recovery plan and schedule of contributions for 2014/17.

RESOLVED – That Members:-

i) Thank P Middleman for an informative presentation.

ii) Note the presentation and await the outcomes arising from the discussions with the District Treasurers.

CHAIR

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SOUTH YORKSHIRE PENSIONS AUTHORITY

CORPORATE PLANNING AND GOVERNANCE BOARD

27 JUNE 2013

PRESENT: Councillor R Wraith (Chair)
Councillors: D Baker, B Ford, L Rooney and P Wootton

Officers: G Chapman (Head of Pensions Administration), J Hattersley (Fund Director), S Pick (Clerk and Treasurer), G Potts (Technical Team Manager), A Shirt (Senior Democratic Services Officer), R Winter (Head of Internal Audit) and R Bywater (Principal Policy and External Relations Officer)

G Warwick (GMB) and F Tyas (UCATT)

Councillor K Goulty (Observer)

Apologies for absence were received from Councillor E Butler, G Boyington, R Lindley, J Prentice and M Wilkinson

1 APOLOGIES

Apologies for absence were noted as above.

2 ANNOUNCEMENTS

The Fund Director informed the Board that the Department for Communities and Local Government (DCLG) had recently issued notice of the following:

- Statutory consultation on the draft Local Government Pension Scheme 2014, with a closing date for consultation responses of 2 August 2013;
- Discussion paper on the Local Government Pension Scheme New Governance Arrangements, with a closing date for responses of 30 August 2013; and
- A Call for evidence on the future structure of the Local Government Pension Scheme, with a closing date for responses of 27 September 2013.

The Fund Director added that there would need to be at least two special meetings of the Authority, probably organised in August and September 2013 to discuss the consultations and the Authority's responses.

3 URGENT ITEMS.

None.

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

None.

5 DECLARATIONS OF INTEREST

None.

6 MINUTES OF THE MEETING HELD ON 16 MAY 2013

RESOLVED – That the minutes of the Board held on 16 May 2013 be agreed and signed by the Chair as a correct record.

7 WORK PROGRAMME

RESOLVED – That the contents of the Work Programme now submitted be noted.

8 ANNUAL REVIEW OF ILL-HEALTH RETIREMENTS

A report of the Head of Pensions Administration was submitted informing Members on the number and cost of ill-health retirements, during the period 1 April 2012 to 31 March 2013.

Referral cases were down from 165 in the previous year to 150 during 2012/13. 54% of the cases had met the medical criteria which was down from 56% in the previous year. The majority of ill-health retirement cases were from the district councils.

Across the employers for the period 1 April 2012 to 31 March 2013 there had been a total of 45 ill-health retirements at a cost of £5,178,710, compared to the period 1 April 2011 to 31 March 2012 of 47 ill-health retirements totalling £4,875,604. The cost is set against the actuarial allowance for each employer and did not represent actual cash in the pension fund. There were a further 18 ill-health retirements where the employer had used up all its actuarial allowance and required a cash injection into the fund amounting to £1,379,045.

RESOLVED – That the report be noted.

9 ANNUAL REVIEW OF APPEALS AND COMPLAINTS 2012/13

A report of the Head of Pensions Administration was submitted to provide Members with an annual review of appeals dealt with through the dispute resolution procedure and customer service complaints.

Members noted that during 2012/13 the Authority processed over 50,000 items of casework ranging from complex benefit calculations to simple data amendments. From this casework the Authority received the following appeals and complaints:

Appeal Type	Number Received
Stage 1 Appeal	1
Stage 2 Appeal	0
Complaints	5
Pensions Ombudsman	4

In addition to appeals against decisions made by the Authority, the Fund Director had also been required to issue stage 2 determinations regarding decisions made by other employers within the fund on seven occasions.

Members wished to congratulate SYPA staff on the low number of complaints which had been received during 2012/13.

RESOLVED –

i) That the report be noted.

ii) That SYPA staff be congratulated on the low number of complaints received during 2012/13.

10 DISTRICT COUNCIL'S SERVICE LEVEL AGREEMENT PERFORMANCE (ANNUAL REVIEW) 2012/13

A report of the Head of Pensions Administration was submitted to provide Members with an annual review of the performance of the district councils against the agreed service level agreement targets for 2012/13 compared with the same data from the previous two years.

The SLA required the employer to produce all relevant documentation within specific target days sufficient to enable the scheme member's records to be created or amended, and any resultant benefits to be calculated.

Members noted that overall performance across all districts during the year had increased with a good improvement on the last two years. Rotherham had improved to a significantly higher standard and the lowest performance had improved slightly during the year.

RESOLVED – That the report be noted.

11 CONSULTATION AND COMMUNICATION POLICY

A report of the Head of Pensions Administration was submitted to obtain Members continuing approval of the current Consultation and Communication Policy document, and to enquire if there was any formal consultation Members would like the Authority to undertake on their behalf.

Members were reminded that the Policy was entirely rewritten in 2012 to give it a fresh and modern feel and to ensure that it was a true reflection of the Authority's desire to consult and communicate with all their customers in ways which are suitable to them. As a consequence only a few minor changes had been made to the Policy at this review.

RESOLVED – That Members approve the slightly amended Consultation and Communication Policy.

12 RISK REGISTER

A report of the Clerk and Treasurer was submitted updating the Board on the Authority's Risk Register.

The Clerk and Treasurer informed Members that no new risks had been added to the Risk Register since the Board's last meeting; however, the Authority's largest risk at the moment was the implementation of the new LGPS from 1st April 2014.

Councillor Wraith asked if officers were confident that they could handle the new scheme with effect from 1st April 2014.

The Head of Pensions Administration confirmed that the Authority would be able to handle the new scheme, however, if the situation changed, Members would be informed.

RESOLVED – That Members note the Risk Register.

13 ADMISSION OF NEW EMPLOYERS PRESENTATION

The Board received a presentation from G Potts, Technical Team Manager regarding the admission of new employers into the Pension Scheme and the processes involved.

The presentation covered:

i) Information regarding who processed new employers.
ii) Details regarding which employers could join the Scheme and the process of entry for each employer category; and
iii) An explanation of the training received by new employers into the Scheme.

Members also received a practical demonstration on the Employers Pensions Information Centre (EPIC) which had been developed in-house by the IT Team. EPIC allowed new employers to submit a wide variety of forms electronically; in addition, employers could also obtain information on the Pension Scheme from the system.

RESOLVED –

i) That G Potts be thanked for an excellent and informative presentation.

ii) That the IT Team be congratulated on developing the Employers Pensions Information Centre (EPIC).

CHAIR

SOUTH YORKSHIRE PENSIONS AUTHORITY

CORPORATE PLANNING AND GOVERNANCE BOARD

29 JULY 2013

PRESENT: Councillor R Wraith (Chair)
K Goulty (Vice-Chair)
Councillors: E Butler, B Ford and P Wootton

Officers: G Chapman (Head of Pensions Administration), B Clarkson (Head of Finance), J Hattersley (Fund Director), M Oades (Deputy Clerk & Monitoring Officer), S Pick (Clerk and Treasurer), M Wilkinson (Internal Audit Manager), R Winter (Head of Internal Audit), G Garrety (Democratic Services Officer) and R Bywater (Principal Policy and External Relations Officer)

G Boyington (Unison) and F Tyas (UCATT)

R Lindley and J Prentice (KPMG)

Apologies for absence were received from Councillor D Baker and Councillor L Rooney

1 APOLOGIES

Apologies were noted as above.

2 ANNOUNCEMENTS

None.

3 URGENT ITEMS.

None.

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

RESOLVED – That item 20 'Contract Standing Orders' be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST

None.

6 MINUTES OF THE MEETING HELD ON 27 JUNE 2013

That the minutes of the meeting of the Board held on 27 June be agreed as a correct record, subject to it being noted that Councillor K Goulty attended the meeting as the Vice-Chair of the Board and not as an observer as stated.

7 WORK PROGRAMME

RESOLVED – That the contents of the Work Programme be noted.

8 EMPLOYERS SLA PERFORMANCE AND OUTSTANDING WORKLOAD

A report of the Head of Pensions Administration was submitted updating Members on employers' performance and any known levels of outstanding workload.

Overall performance between this quarter and the quarter ended 31 March 2013 had seen a significant increase in cases received up from 3391 to 4043, but performance fell to 54%. Closer analysis showed that the split between current work and backlog fell from 57%/43% at the end of March to 51%/49% at the end of June. It was noted that the higher the backlog percentage would always result in a lower overall performance rating.

The Head of Pensions Administration informed Members that the valuation data had been sent to the actuary on time; the actuary had commented that the quality of the data was good in comparison with some other Funds.

Members were provided with a summary of the measures being taken by each District Council to improve performance results.

Barnsley MBC – the year-end return had been received on time for the first time in many years. Disappointingly there had been no contact recently regarding further developing the electronic interfaces to ensure all relevant cases are identified.

Doncaster MBC – it was thought that current performance would soon be on a par with Rotherham MBC; the move to Rotherham payroll had obviously had the desired effect.

Rotherham MBC – no issues. A slight drop in performance was attributed to year-end work.

Sheffield CC – Dialogue and action was continuing to ensure records were synchronised and interfaces produced all relevant changes as they occurred. Progress was slow but meetings had been productive in identifying problem areas and setting action plans to address them.

With regard to Annual Returns, not all employers had met the deadline for return but all four District Councils had. Overall there had been a big improvement from the employers compared to the previous year.

RESOLVED – That the report be noted.

9 REVIEW OF PENSIONS ADMINISTRATION

A report of the Head of Pensions Administration was submitted to update Members on administration issues for the period 1 April 2013 to 30 June 2013.

During the period, casework had risen 5.2% but performance levels had been maintained. Recently staff had been concentrating on valuation data queries; consequently performance may drop in the next report.

The work to increase the use of Information Technology to realise efficiencies continued with the further collection of email addresses (currently 27,425) and mobile telephone numbers (15,912).

It was noted that the opt-out strategy was still working well. Since 1 February 2012 the Authority had issued 550 information packs to people enquiring about leaving the Scheme. Of these only 110 had gone on to opt-out which indicated the strategy was effective in about 80% of cases.

RESOLVED – That the report be noted.

10 RISK REGISTER

There had been no changes to the Risk Register.

RESOLVED – That the report be noted.

11 EXTERNAL AUDIT ANNUAL GOVERNANCE REPORT

KPMG's Annual Governance report was submitted which summarised the key issues identified during their audit of the Authority's financial statements for the year ended 31 March 2013 and their assessment of the Authority's arrangements to secure value for money (VfM) in its use of resources.

It was anticipated that an unqualified opinion would be issued on the financial statements by 31 July 2013.

The audit had identified one audit adjustment; the need for the Authority to disclose the exit packages paid in the year totalling £103,000. This had since been adjusted and there were no uncorrected audit differences.

R Lindley reported that high quality accounts had been provided with good supporting working papers; audit queries had been dealt with efficiently and the audit process completed within the planned timescales.

With regard to VfM, it was anticipated that a qualified VfM conclusion would be issued by 31 July 2013.

Whilst acknowledging the progress made in achieving improvement to the timeliness and quality of information received from employers, performance had only increased to 65% and further work needed to be done before an unqualified VfM conclusion could be issued.

The Chair, on behalf of the Board, thanked B Clarkson for all her hard work in the production of the financial statements; it was greatly appreciated.

RESOLVED – That the Board noted that KPMG anticipated issuing an unqualified opinion on the financial statements for 2012/13 and a qualified opinion on the VfM conclusion, the latter stemming from concerns about the quality and timeliness of information the Authority received from contributing employers to the Fund.

12 INTERNAL AUDIT PROGRESS REPORT

A report of the Head of Internal Audit was submitted detailing the work of the Internal Audit Team from the end of February 2013 to the end of June 2013, and the outstanding recommendations as at the end of June 2013 from reports issued prior to January 2013.

The Audit Manager reported that the Team were on track to deliver the planned projects; the Travel and Subsistence Claims audit rolled forward from last year's plan had been completed.

RESOLVED – That the report be noted.

13 LETTERS OF REPRESENTATION

A report of the Clerk and Treasurer was submitted seeking approval of the Clerk and Treasurer's formal letters to the Auditor confirming:

i) the information in the final accounts for 2012/13 regarding the Authority's liabilities and any outstanding legal issues, and

ii) the Authority's operations in relation to the Financial Conduct Authority and the fact that the Authority does not hold client money or custody assets.

It was noted that this was now a formal part of the annual statutory audit.

RESOLVED –

i) That the above-mentioned formal letters to the Auditor be approved.

ii) That both letters be signed by the Chair of this Board and the Clerk and Treasurer.

14 FINANCIAL CONDUCT AUTHORITY: CLIENT ASSETS REPORT

The Board considered the Clients Assets report prepared by the Authority's external auditor and sent to the Financial Conduct Authority as required under rule SUP 3.11.2 of the FCA. The report confirmed that the Authority does not hold client money or custody assets.

RESOLVED – That the report be noted.

15 SOUTH YORKSHIRE PENSION FUND ANNUAL REPORT 2012-13

A report of the Clerk and Treasurer was submitted presenting the draft Annual Fund Report for approval.

It was noted that CIPFA had issued new guidance suggesting that it was good practice that the Annual Fund Report be formally reviewed by those charged with governance of the Fund prior to publication.

RESOLVED – That the Annual Fund Report discussed today be approved for publication.

16 BUDGET MONITORING

A report of the Clerk and Treasurer was submitted advising Members of current expenditure levels within the Authority against approved budget.

RESOLVED – That the report be noted.

17 STATEMENT OF ACCOUNTS 2012-13

A report of the Clerk and Treasurer was submitted seeking the Board's approval of the audited Statement of Accounts.

The Clerk and Treasurer reiterated his praise for B Clarkson and her colleagues regarding the quality of the technical data and the achievement in meeting the deadline.

RESOLVED – That the audited Statement of Accounts for 2012/13 be approved and that the Chair of the Board be authorised to sign them.

18 UPDATE ON THE CO-OPERATIVE BANK PLC

A report of the Clerk and Treasurer was submitted providing an update on the Co-operative Bank PLC since the downgrade of its credit rating in April 2013.

RESOLVED:-

i) That the report be noted.

ii) That a further update be provided to the Board's November meeting.

19 MEMBERS' TRAINING AND EDUCATION: EXTERNAL CONFERENCES AND SEMINARS

A report of the Fund Director was submitted to inform Members of a training opportunity.

AXA Investment Managers were offering an LGPS training seminar focusing on investment issues at various locations in September. Members were advised to contact Member Services if they wished to attend.

RESOLVED – That the report be noted.

20 CONTRACT STANDING ORDERS

A report of the Clerk and Treasurer was submitted to inform Members of contracts tendered and being tendered which are valued in excess of £50,000.

RESOLVED – That the report be noted.

CHAIR

SOUTH YORKSHIRE PENSIONS AUTHORITY

INVESTMENT BOARD

19 SEPTEMBER 2013

PRESENT: Councillor K Goulty (Chair)
Councillors: J Campbell, M Lawton, K Richardson, K Rodgers and R Wraith (Vice-Chair)

Officers: F Bourne (Administration Officer), J Hattersley (Fund Director), M McCoole (Senior Democratic Services Officer), S Pick (Clerk and Treasurer) and S Smith (Head of Investments)

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

Investment Advisors: T Gardener, N Mackinnon and L Robb

Apologies for absence were received from Councillors: Councillor A Sangar and F Tyas

1 APOLOGIES

Apologies were noted as above.

2 ANNOUNCEMENTS

None.

3 URGENT ITEMS

None.

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

RESOLVED – That:-

i) Item 15 'Actuarial Valuation and Asset and Liability Study 2013: Assumptions and Suggestions'
ii) Item 17 'Passive Currency Hedging Update'
iii) Item 18 'Corporate Class Action Law Suits in the United States: Shareholder Rights, Class Actions and Portfolio Monitoring'

be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST

None.

6 MINUTES OF THE INVESTMENT BOARD HELD ON 23 MAY 2013

Councillor Campbell referred to the debate surrounding investment in tobacco. The Fund Director commented that the Authority had a Responsible Investment Policy the essence of which was that the Fund would engage and did not disinvest.

TG referred to the emerging market equity portfolio and noted that the Fund had chosen the Aberdeen and AshmoreEMM products. TG suggested that a small note be produced to confirm the action taken.

Councillor Lawton also referred to the emerging market equity portfolio and sought clarification on the funds being invested in. The Fund Director replied that the Fund had selected a general Aberdeen Latin American fund and a specialist small company AshmoreEMM Latin American fund.

RESOLVED – That the minutes of the meeting of the Board held on 23 May 2013 be agreed and signed by the Chair as a correct record.

7 WORK PROGRAMME

The Board considered its' Work Programme to June 2014.

RESOLVED – That the Work Programme be noted.

8 UPDATE ON MATTERS THAT HAVE ARISEN SINCE THE LAST MEETING

i) The Chair and Advisors had met with Marathon in July 2013, to discuss the Japanese equity portfolio they manage and their views on Japan. Manager William Arah, had given a presentation which covered his views on Japan and the political situation there, and more broadly the outlook for emerging markets and the role of China.

ii) The Government was consulting on the creation of a South Yorkshire Combined Authority, which would take on responsibility for transport and economic development functions across the greater South Yorkshire area; the existing ITA would be abolished as part of the process. This Authority had a contractual relationship with the ITA to run the South Yorkshire Passenger Transport Pension Fund. If the ITA was abolished, a new administering authority would be required to be responsible for the Fund. At the next meeting of the South Yorkshire Passenger Transport Pension Fund Committee it was anticipated that the Committee would suggest that the Combined Authority take on the administrative authority status of the ITA. It was also thought that the Committee would like this Authority, as the day to day manager of the pension fund, to respond to the consultation in a similar manner. It was agreed that this Authority would respond to the consultation along those lines.

iii) Councillor Lawton had recently attended an alternative investments conference, and had forwarded the documentation onto the Fund Director.

9 INVESTMENT BOARD ARRANGEMENTS

A report of the Clerk and Treasurer was submitted in order to consider altering the format of Board meetings.

L Robb (LR) commented that from his perspective there was a danger that the pre-meeting merely just condensed all the points that came up over the last quarter and which would then be repeated at greater length in the open meeting. The Advisors wanted to do what best suited Members, and would try to pin point relevant information to be discussed to enable a more focussed discussion throughout the meeting.

Councillor Goulty suggested the Advisors' email group be widened, to include all Investment Board Members, to allow information to be distributed.

LR commented that circumstances or opportunities which may arise i.e. the corporate bonds 3 years ago, should be highlighted in the pre-meeting or more thoroughly discussed in the meeting itself. LR added that important information would be conveyed through the email channel.

TG was happy to prepare a pre-briefing paper, providing it was made clear what is required, a template was made available, and he was competent to answer what was being asked.

N MacKinnon (NM) reiterated that the role of the Advisors is not to scrutinise every transaction but to report to Members on good housekeeping, good corporate governance, and a broad brush picture that the Fund was meeting its investment principles, and being managed in accordance with those principles and with risk management. The Advisors would also raise any fundamental problems regarding performance or issues with the external managers.

TG added that in his opinion this Board should look at the long term issues facing the Fund. There was a danger of focusing too much on one particular issue and losing sight of the overall picture. Time can be wasted on points that are not relevant to the Fund.

RESOLVED – That Members agreed:-

i) To a 15 minute pre-meeting before every Board meeting.

ii) To one pre-meeting every year (the first meeting after the AGM) where Members, Advisors and the statutory officer would discuss performance of the Fund and its' managers, and any other items of interest.

iii) Advisors to submit comments (if any) in advance by email to Members every quarter highlighting any important issues to be raised or providing a short report if there is an item they wish to bring to Members' attention.

iv) These arrangements should be reviewed in September 2014.

10 LOCAL AUTHORITY PENSION FUND FORUM: MARCH 2013 BUSINESS MEETING

A report of the Fund Director was submitted to inform Members that the minutes of the March 2013 business meeting had been issued.

Members discussed the LAPFF Annual Conference to be held in Bournemouth in December 2013; further conference details were awaited, and Members were advised to contact the Joint Secretariat if they were interested in attending. Councillor Lawton expressed an interest in attending the conference.

RESOLVED – That:-

i) The report be noted.

ii) Approval be given for one Member to attend the LAPFF Annual Conference in December 2013, on behalf of the Board.

11 WM PRESENTATION

The Board received a presentation from WM Company (David Cullinan) which reviewed the Fund's performance over the last financial year, compared it with its own benchmark and with other LGPS funds and pension funds and commented upon broader industry trends.

WM stated that during 2012/2013 the weighted average return from UK equities had been 18% and from UK corporate bonds 12.6%. Risk assets in general did well. UK Government bond returns, in contrast, were only 6.4% for nominal gilts and 11.2 % for index linked. Total asset return was 13.8% compared to RPI of 3.3%. Over the last three years the returns had been 8.1% and 4.1% respectively.

WM noted that at a time when investment in alternative asset classes had increased substantially returns had not beaten those from equities over ten years. The allocation to equities was steadily declining whilst that to bonds was increasing though the last year saw a hold in that movement. Property allocation remained steady.

When WM compared the Fund's performance against that of its benchmark it was apparent that there had been sustained outperformance up until 2010 but thereafter the performance had been more variable. Over the last three years performance was in line. Over the last five years it was slightly under target, in-line over ten years and over target over twenty years. WM noted steady equity relative outperformance, strong property outperformance and comparatively poor private equity returns over the last year. Over the last ten years equity and property selection had been strong with mixed returns elsewhere.

Compared to the LGPS universe the Fund demonstrated consistent outperformance ranking 15th over three years and 10th over twenty years. Perhaps more importantly in terms of risk and return the Fund produced some of the best results in the peer group.

Both during the presentation and after it DC answered a number of questions. TG commented upon the alternative investment category and queried whether the mixture of assets had varied over time and whether many or the majority of funds had an exposure. DC agreed that it used to be dominated by private equity assets but hedge funds now accounted for a much greater percentage and that it tended to be the larger funds who had an allocation. TG referred to the Fund's own private equity numbers which appeared to indicate underperformance and wondered whether this was partly a function of the benchmark chosen and how it compared to other LGPS funds. He also commented that hedge funds covered a wide range of assets so that comparison was not always meaningful. The Fund Director commented that private equity was difficult to value and traditionally lagged public market returns. In comparison to other funds and investors, he thought the Fund's returns were quite good but had no supporting evidence for that view. The Fund did not follow a typical private equity programme having entered the class later than its peer group and tended to be much more mid-market orientated. Its earlier investments had been very much locally focussed. Once that policy had been relaxed it had been a conscious decision to seek cash returning funds for a period before diversifying out into a more conventional portfolio approach.

The long term performance (including hedging) for 2012/13 had lifted medium term numbers, and had improved over the last 5 years, but had never been more than 7% per annum.

Councillor Lawton referred to alternative investments, where some funding had been funded into the South Yorkshire Investment Fund. The Authority had made a decision years ago to invest in the area. The Fund Director commented the private equity policy 20 years ago was different to that followed now. There had been much more venture capital supporting local businesses 10 or 15 years ago.

TG commented that the problem with risks was that the return was relative to index linked gilts, which was good, but liability was predominately inflation linked. He also commented that the nature of the advisor was to pick out areas which were incorrect and not areas that were correct. He added that the Fund Director and his team had done a great job, with a continuation of good results.

The Fund Director pointed out that the Fund had been slow to react to the larger picture changes during the financial crisis and that, in particular, had held too much cash in 2010. DC was thanked for his informative presentation.

RESOLVED – That the presentation be noted.

12 HEALTH AND SAFETY AT WORK ACT 1974: COMMERCIAL PROPERTY PORTFOLIO ANNUAL AUDIT

A report of the Fund Director was submitted to inform Members of the outcome of the annual health and safety audit of the commercial property investment portfolio.

Standard Life Investments, the Authority's' commercial property advisor, reported upon and monitored the managing agent's health and safety performance. Following a whole portfolio audit, a total of 1,110 risks were identified, with almost 98.92% being controlled, only 12 uncontrolled risks were identified.

RESOLVED – That Members noted the annual health and safety report prepared by Standard Life Investments.

13 VOTING GUIDELINES RENEWAL

A report of the Fund Director was submitted to seek Members' approval of some minor amendments to the current voting guidelines. Members had agreed in May 2013 to keep the present guidelines until the completion of the Responsible Investment Policy review. The guidelines had further been discussed with PIRC. Officers were recommending that Exchange Traded Funds be excluded from the voting guidelines.

TG commented that if ETFs were being used merely as transitory vehicles he was content that they be excluded from the guidelines: however, if they were used as long term investments they ought to be included.

RESOLVED – That, subject to the caveat regarding ETFs, the revised voting guidelines be adopted for a period of not less than twelve months.

14 STATEMENT OF INVESTMENT PRINCIPLES: RENEWAL

A report of the Clerk and Treasurer was submitted to seek Members' approval to adopt a revised Statement of Investment Principles (SIP) for twelve months with effect from 1 October 2013.

The Authority had a statutory obligation to produce and publish a SIP, reviewed on a yearly basis.

Having reviewed current best practice a separate statement on compliance with the Myners' Principles had been produced and this was presented for approval.

Members considered a revised version of the current SIP which referred to the Myners Principles Compliance Statement, and which contained a revamped section on risk management which, amongst other issues, highlighted employer's covenants.

TG had identified some minor points within the document over which he would liaise directly with the Fund Director.

RESOLVED – That Members agreed to adopt the revised Statement of Investment Principles and the Compliance with Myners' Principles Statement, with effect from 1 October 2013, for a period of not less than twelve months.

15 QUARTERLY REPORT TO 30 JUNE 2013

The Board reviewed the performance of the Fund during the quarter ended 30 June 2013.

The Fund ended the last quarter with an underweight position to bonds and property, in-line overseas equities and absolute return funds and overweight positions to UK equities, cash and private equity funds.

The Fund divested most of its exposure to high yield bonds but invested £20m into emerging market bonds. £20m was invested into overseas equity portfolios with £8m new money into the Other International equity portfolio: the remainder of the investment to overseas equities being the reinvestment of dividend income.

For the quarter the Fund returned -1.8% against the expected benchmark return of -2.0%, with the Fund valuation falling from £5,258.6m to £5,155.0m.

Henderson had returned -2.8% against an expected return of -2.9%. Members' attention was drawn to an anomaly in performance measurement. The Fund's systems used a mid-day price, whereas Henderson's numbers were priced at the end of the day. Henderson's performance figures showed a return of -3.1% against -2.9%.

Henderson believed that underperformance of credit relative to government bonds in response to higher rates was unusual, as credit markets tended to do better in an improving economic environment.

Index-linked gilts had returned -6.8% versus -7.0% for the benchmark. The Fund remained positioned for significantly higher yields; the shift so far had only taken yields back to where they were in 2012. The long term average for 30 year linkers was 1.9%.

High yield bonds returned -2.4% against an expected return of -1.4%.
Emerging market bonds had returned -3.4% against an expected return of -3.5%. Emerging Markets were amongst the hardest hit of the major bond categories in Quarter 2.

During the quarter UK equities had been one of the better performing areas which returned -1.6% against the expected benchmark return of -1.7%. The first two months of the quarter saw the market rising continuing a record breaking twelve month rally, before falling sharply in June. This fall was largely in response to indications from the Federal Reserve that it was considering curtailing its Quantitative Easing programme.

NM asked how, bearing in mind the importance of how the market perceived the Federal Reserve's easing policy, did yesterday's announcement from the Fed change the Fund's outlook for the next few months. S Smith (SS) commented that the Fund always try to look through the short term moves, and had always anticipated that the Fed would curtail QE some time shortly. Yesterday's statement had reinforced that time was something which could not be predicted. The Fund still preferred to take a long term view.

The Fund Director commented that some of the recovery in the US and UK had not been a fundamental recovery. At first glance recent data on the US housing market looked positive but looked less so when the amount of US government support was taken into consideration.

International equities returned -1.4% against the benchmark return of -1.3%. The Fund had outperformed except for North America and Other International portfolios. Overall, the Fund's stance had not changed substantially.

The Fund Director referred to the questions raised earlier regarding emerging market funds. As reported to earlier meetings exposure was being maintained through ETFs and the other vehicles whilst the new investments were made. The African Fund only dealt twice per month. It had taken longer than expected to negotiate terms on the two Latin American funds and satisfy compliance needs and investment had barely started.

TG asked whether liquidity constraints would be just as valid exiting the funds as purchasing them and was told that would be the case. TG commented that the Fund's success did not depend on having investment in Africa. TG added that had he been an advisor when the decision to invest was taken the liquidity issue would have been of concern. In his view if the Fund Director wanted to restrict investment at £30m rather than the prescribed £50m he should be allowed to do so.

The Fund Director reminded the Board that one of the key recommendations of the previous Panel had been to limit the number of holdings.

Property had returned 1.6% against the benchmark return of 1.9%. During the quarter there had been a change of sentiment in the UK property market, with a strong London/South East bias. This continued. There had been fewer defaults in retail than expected. The Fund still expected property returns to be income led. The agricultural investment over the last two years had proved its worth.

In response to a Member's question the Fund Director commented that some units remained empty in Milton Keynes, Scotland and Kent. There were no major voids where there was no interest at all.

Looking at the outlook the Fund Director said it had been anticipated from the end of June that the Federal Reserve would begin to draw in excess money and the shift in bond yields reflected that. Yesterday's announcement indicated that, in fact, there would be cheaper money for longer. Markets remained difficult and the Fund was inherently cautious. The Fund still did not want to buy government bonds, as they were too expensive, and would probably move closer to benchmarks than previously.

Referring back to the earlier discussion Councillor Rodgers expressed concern that if the Federal Reserve did initiate tapering was the Fund in a position to respond. The Fund Director commented that the Fund had long held concerns over Quantitative Easing which had been a major experiment and the means open to the authorities to extricate themselves out of the position. The obvious answer appeared to be to encourage inflation.

LR commented that banks had held cash back and the global economy was getting back into shape. It was important not to lose sight that the reason banks had cut back was because they felt that economies were returning to normality and, therefore, reduced easing is not necessarily bad for markets. He was concerned that if corrective action was not taken by the central banks inflation would increase.

TG added that the US and UK authorities were trying to initiate tapering to coincide with growth in the economy. This was difficult to manage due to the election cycles. TG felt they would err on the side of inflation. He did not think the current UK government would want mortgage rates to rise before 2015.

NM commented that Quantitative Easing was a swap between cash and bonds, not actually printing money. A preference for cheap money was happening on both sides of the Atlantic; inflation over deflation. They are taking a risk creating a bubble and NM thought Bernanke had done the wrong thing, there is a risk we have not learnt from the previous crisis and the whole thing would have to be repeated again.

RESOLVED – That the report be noted.

16 EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED – That, under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve 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.

17 ACTUARIAL VALUATION AND ASSET AND LIABILITY STUDY 2013: ASSUMPTIONS AND SUGGESTIONS

A report of the Fund Director was submitted to update Members and Advisors on the assumptions etc. being used in the actuarial valuation and companion asset and liability study, and to introduce potential new asset classes into the benchmark. A letter received from Mercers regarding the A&L study was also noted.

The Fund Director gave a brief update on the findings of the valuation process so far. Another meeting with representatives of the main employers was scheduled for early October ahead of the full presentation to Members at the Authority meeting later that month.

TG commented that there was a feeling amongst investment consultants that they had to produce suggestions every time in order to justify their fees. TG suggested that Mercers be advised that a review which recommended no changes was just as valid as one that did.

The Fund Director commented that the main issue raised so far was how much credence the actuary could place on the significant changes to bond yields that had taken place since the end of March 2013. There was also a debate regarding prospective inflation and investment returns. Members were reminded that as part of the 2010 Valuation agreement the district councils had given certain undertakings regarding baseline contributions from April 2014. Whilst recognising that one objective of the Authority was to return to 100% funding it was also important to understand that contribution rates needed to be affordable and sustainable. There was a danger of reacting to short term issues when conducting an A and L study and these needed to be avoided.

RESOLVED – That, subject to the points here made, Mercers be advised that the broad principles set out in their letter were acceptable and that the report be noted.

18 PASSIVE CURRENCY HEDGING UPDATE

A report of the Fund Director was submitted to seek Members' views on whether or not the current operation of a passive currency heading strategy be continued.

Members and Advisors had first considered introducing currency hedging in September 2010. In October 2011 the Board had agreed to implement the strategy. Exposures hedged were the US dollar and Euro denominated overseas bond and overseas property holdings, and the United States and European equity portfolios. The estimated costs incurred since inception were £2.6m. Although reasonable in themselves when compared to the other costs incurred in managing the Fund they are significant. The strategy also required the Fund to hold higher levels of cash than it otherwise would. The Fund had gone through a period of relative stability in terms of the exchange rates. The Fund's view was that sterling was inherently a weak currency.

LR commented that the current Advisors were not in post when the decision had been made. In his opinion there was not enough benefit accruing from hedging to justify the cost entailed. In the long run, companies around the world would have exposure to different economies. During the short term hedges would reduce volatility but LR did not believe that was sufficient to warrant a strategy. His view would be not to hedge and to close it down now. NM agreed and added that during his previous tenure on the Panel he had been of the view that currency hedging was unnecessary.

TG commented that the present Panel was unanimous.

Councillor Lawton commented that implementing the hedging strategy had been worth doing but that in light of the advice of the current Advisors and the cost of doing it he agreed there was not much point in continuing with it.

The Fund Director stated that hedging of the overseas property exposure should be continued even if the other exposures were not.

RESOLVED – That Members:-

i) Noted the results of the passive currency hedging programme to date including both the volatility of outcomes and the estimated costs of trading.

   Reviewed the rationale behind de-risking overseas investment returns by currency hedging and in accordance with the advice now received from the current Panel determined not to continue with it other than to continue with currency hedging on the overseas property exposure.

ii) Received the report.

19 CORPORATE CLASS ACTION LAW SUITS IN THE UNITED STATES: SHAREHOLDER RIGHTS, CLASS ACTIONS AND PORTFOLIO MONITORING

A report of the Fund Director was submitted to inform Members of progress regarding the portfolio monitoring system on securities fraud.

Members noted that it was widely regarded as part of an investor's fiduciary duty to recover losses incurred due to malfeasance wherever possible. The Authority had a policy of participating in class actions where a positive net return was a likely outcome and to date just over U$749,000 had been received from claims resulting in net proceeds of all fees of roughly £400,000 i.e. after costs of £74,100. The Fund Director suggested we continue with the policy.

RESOLVED – That the report be noted.

CHAIR

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SOUTH YORKSHIRE PENSIONS AUTHORITY

PENSIONS ADVISORY PANEL

1 OCTOBER 2013

PRESENT:	Councillor R Wraith (Vice-Chair)
Trade Unions	R Padley (Unison), D Patterson (UNITE) and G Warwick (GMB)
Pensioners & Deferred Representatives	D Carr, G Johnston, S Khan, D Stevenson, D Tomkins and P White
Officers	S Pick (Clerk and Treasurer), J Hattersley (Fund Director), G Garrety (Democratic Services Officer) and R Bywater (Principal Policy and External Relations Officer)
	Apologies were received from: Councillor K Goulty, G Boyington, M Clegg, J Weston and G Chapman

1 WELCOME AND APOLOGIES

The Chair welcomed everyone to the October meeting of the Panel. Apologies were noted as above.

2 MINUTES OF THE MEETING OF THE PANEL HELD ON 11 JUNE 2013

RESOLVED – That the minutes of the meeting of the Pensions Advisory Panel held on 11 June 2013 be agreed as a correct record subject to the following amendments:

i) Minute 1: Frank Tyas would be representing UCATT at Authority meetings and not Unite.

ii) Minute 7, paragraph 3: The sentence should read ‘The Panel noted the likelihood that the Fund’s notional deficit’ not ‘national deficit’.

3 PENSIONS AUTHORITY ANNUAL MEETING 20 JUNE 2013

The Panel considered the minutes of the Pensions Authority Annual Meeting held on 20 June 2013.

4 PENSIONS AUTHORITY ORDINARY MEETING 20 JUNE 2013

The Panel considered the minutes of the Ordinary meeting of the Pensions Authority held on 20 June 2013.

P White asked to be provided with a copy of the Authority’s Risk Management Policy and current Risk Register.

Action: G Garrety to provide copies as detailed above.

5 CORPORATE PLANNING AND GOVERNANCE BOARD 27 JUNE 2013

The Panel considered the minutes of the meeting of the Corporate Planning and Governance Board held on 27 June 2012.

With regard to the Annual Review of Ill-Health Retirements a member of the panel questioned whether the number of referrals included people who had been turned down for retirement on the grounds of ill-health.

Action: G Chapman to provide an answer.

6 CORPORATE PLANNING AND GOVERNANCE BOARD 29 JULY 2013

The Panel noted the minutes of the meeting of the Corporate Planning and Governance Board held on 29 July 2013.

7 LGPS 2014 UPDATE

J Hattersley informed the Panel that there was nothing new to report regarding LGPS 2014 reform; the Authority had responded to DCLG consultations regarding governance arrangements and the call for evidence on the future structure of the LGPS, which was the first step to rationalise the number of Funds in England and Wales. The Panel discussed the possible consequences of such a rationalisation.

8 REFRESHER TRAINING FEEDBACK

R Bywater informed the panel that 16 Members had attended the recent Fundamentals Refresher Training, including 5 Members of the Pensions Advisory Panel.

The feedback from attendees so far had been very positive, with most scores in all areas being 9/10 or 10/10. There seemed to be an appetite for more in-house bespoke training sessions and this would be discussed further by officers. The training had been recorded using the webcasting system and copies of the DVD would be available to the Panel on request.

G Warwick commented that he had been pressing for years for Trades Union representatives to be included in training events as he felt their exclusion put them at a disadvantage in terms of knowledge. He had found the training session really valuable; it had given a real insight into the workings of the Authority. He had found the presentation by G Chapman extremely beneficial and hoped this could be built upon in the future.

The Panel noted that S Lee from Investec had delivered the training free of charge and was prepared to do so again. R Wraith commented that S Lee had done a very good job.

9 MATTERS RAISED BY THE PANEL

D Carr raised concerns regarding the Polish Government's proposals to reform pension provision. These were quite complex but were, from the government's viewpoint, an attempt to reduce liabilities and shift investment away form debt instruments and into “real assets”. He questioned the possibility of a similar situation occurring in other EU countries and whether this affected investment decisions.

J Hattersley replied that there was a political risk attached wherever money was invested; from a worldwide perspective the West was still going through a difficult period. It was thought highly unlikely that a similar situation could occur in the UK.

CHAIR

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South Yorkshire Pensions Authority – cycle of future meetings

Authority Meetings

Agendas	10 October 2013	21 November 2013	16 January 2014	20 March 2014
Strategic Overview of Business	Meeting Overview & Context	Meeting Overview & Context	Meeting Overview & Context	Meeting Overview & Context
	S41 Feedback	S41 Feedback	S41 Feedback	S41 Feedback
Board Scrutiny	Call-Ins	Call-Ins	Call-Ins	Call-Ins
Review of Strategies	Qtr 1 Performance Snapshot Report	Budgets and Revised Estimates	Budgets and Revised Estimates	Quarter 3 Performance Snapshot Report
	Actuarial Valuation Update – Mercers	Qtr 2 Performance Snapshot Report	Actuarial Valuation Update	Treasury Management Strategy Annual Report
		Actuarial Valuation Update		Review of Funding Strategy Statement
Business	Board Chairs' Reports	Board Chairs' Reports	Board Chairs' Reports	Board Chairs' Reports
	LGPS Reform Proposals Update	LGPS Reform Proposals Update	LGPS Reform Proposals Update	LGPS Reform Proposals Update
	FoIA Annual Report	Pensions Advisory Panel Feedback (verbal)		AVC's Annual Review
	Members Self-Assessment Report	Scheme Members' AGM		Meeting Cycle Dates

28.10.13

	10 October 2013	21 November 2013	16 January 2014	20 March 2014
Business		New Administration System		
		Pooling Arrangements for Academies Consultation		
	Amendment to Investment Board Meeting Date	SYITA Agreements Update		
		LGPS Funds Data		
Training & Development		Member L & D – Sub-Regional Collaboration		
		LAPFF Presentation		

SOUTH YORKSHIRE PENSIONS AUTHORITY

21 November 2013

Report of the Clerk and Treasurer

REVENUE ESTIMATES 2014/15 – ADMINISTRATION AND INVESTMENT MANAGEMENT EXPENSES

1 Matter for consideration

To consider the Authority's draft revenue estimates for 2014/15 in respect of administration and investment management expenses, in the context of the continuing financial constraints facing public services, and to approve the levy under the Levying Bodies (General) Regulations 1992.

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2 Recommendations

Members are asked to:

(i) Approve the revised estimates for 2013/14 in the sum of £5,381,200 including the use of reserves of £23,500

(ii) Approve a levy of £543,000 for 2014/15 in accordance with The Levying Bodies (General) Regulations 1992.

(iii) Note the preliminary forecasts for 2014/15, and refer the estimates to the District councils for comment.

STRATEGIC PLANNING

3 Background

3.1 The Pension Fund's pensions and investment management costs do not fall directly on Council Tax. Instead they are recovered by means of a % addition to employers' contribution rates. (at the 2013 valuation, this has been estimated at 0.4%).

3.2 One of the Authority's key strategic objectives is to operate cost effectively. The management of most of the investment portfolios "in house" means that South Yorkshire's costs in this area will be lower than most other funds. Published statistics on administration costs per pensioner show the Authority falls significantly below the average for LGPS funds.

3.3 This does not absolve the Authority from maintaining its focus on reducing management and administration costs and demonstrating to employers that it is making a contribution to the need to cut local spending levels.

3.4 In the long run, the Authority can assist employers to cut budget requirements in two ways. Firstly, by increasing investment returns. This is considered as part of the asset and liability review. Secondly, by cutting management and administration costs. This is the subject of this report.

3.5 Since 2010 local councils have been implementing cuts of more than 25% over 4 years and this pressure on local councils is still continuing.
If this was translated directly into equivalent Pensions Authority terms it would represent budget cuts of more than £1.4m between 2011/12 and 2014/15.

The Authority has always strived to manage the Fund within the budgetary constraints imposed and, as shown in the table below, has consistently achieved an underspend over the last few years. Although the Authority has built up a reserve of around 3% of budget the resulting savings have meant a smaller charge to the Fund each year.
In order to maintain expenditure at cash standstill on the net controllable budget in 2013/14 it was agreed that reserves would be used where necessary. It is important to look at the net controllable budget as this takes out expenses which are linked to market value.

Year	**Original Budget £**	**Revised Budget £**	**Actual outturn £**	**Variation £**
2007/08	5,912,100	5,928,100	5,751,346	-176,754
2008/09	6,078,300	5,898,700	5,524,211	-374,489
2009/10	5,976,000	5,809,500	5,184,506	-624,994
2010/11	5,808,750	5,796,350	5,369,973	-426,377
2011/12	5,685,700	5,176,000	4,957,594	-218,406
2012/13	5,340,700	5,242,800	5,102,237 (net of 138,285 actuarial fees charged to the fund)	-140,563
2013/14	5,417,900 (using 60,200 of reserves to maintain 2012/13 budget level of 5,357,700)	5,381,200 (using 23,500 of reserves to maintain 2012/13 budget level of 5,357,700)		

3.6 The current climate around pensions is a turbulent one:

- The reductions in district council and other local public services budgets has resulted in an increase in the number of retirements being administered by officers. Although these peaked in 2010/11 it is expected that there will be a fresh round of redundancies during the forthcoming months.

  There has been, and continues to be, an even bigger expansion in the number of requests from employers and employees for information relating to pension entitlements.

Year	Oct 2010 / Sept 11	Oct 2011 / Sept 12	Oct 2012 / Sept 13
Casework received	50,316	56,791	61,281

  This shows an increase of workload of 12.8% and 7.9% respectively, overall an increase of over 21% since October 2011.

- The new LGPS scheme comes into effect on 1st April 2014. More is now known of the implications of the scheme but further transitional information is still awaited.

    i. The new Scheme will be a career average scheme with different accrual rates to the current Scheme.

    ii. The new Scheme retirement age will be linked to state pension age.

    iii. Contribution rates and bands will change.

    iv. There will be new options available to Scheme members and current benefits will be protected.

    v. This will lead to increased workload as the Authority implements the new Scheme in line with a full new set of Regulations. This will require significant liaison over the changes with an ever increasing number of employers.

  All the above will involve enhanced administration requirements and probable changes to investment strategy. Furthermore, the introduction of Auto-Enrolment will add to the Authority's workload.

4 **Preliminary financial forecasts**

This report sets out the detailed revenue estimates on a 'continuation of service' basis for 2014/15 for administration and investment management expenses together with a probable outturn for 2013/14.

The Authority is also asked to approve the levy for 2014/15 in respect of expenditure which is not borne by the Pension Fund (detailed in Appendix D).

The following are attached in support of the above:-

Appendix A - summary of the revised 2013/14 estimates and 2014/15 estimates

Appendix B - variation statement showing main changes for 2013/14 probable outturn

Appendix C - variation statement showing main changes for 2014/15 estimate

Appendix D - statement of recharges to District Councils and levy for 2014/15

4.1 Original Budget 2013/14

The original budget for 2013/14 was approved at £5,340,700 in January 2013. At the investment board meeting in February 2013 a supplementary estimate of £17,000 per annum was approved to cover the addition of European and North American stocks to the voting programme as part of the Fund's responsible investment engagement

This increases the base budget to £5,357,700 for 2013/14.

The actual estimate for 2013/14 was £5,417,900 and so it was approved that the balance (£60,200) would come from reserves to achieve a cash standstill on the 2012/13 net controllable budget.

4.2 Probable Outturn

The revised estimates for 2013/14 show a bottom line reduction of just under £37,000. This would mean that only £23,500 would need to be taken from reserves to maintain the cash standstill from 2012/13.

The main variations are shown in Appendix B.

Three voluntary redundancies (two in administration and one in investments) are taking place during 2013/14 and so the costs of those redundancies will be borne in full in this year. However the Authority has still achieved a saving on the employees budget by not recruiting to empty posts and only partially covering maternities.

5 Developments during 2013/14

5.1 The Authority is always actively looking for efficiency savings. These are mainly in the areas of postage, printing and IT. The Head of Pensions Administration continues to drive forward the greater use of electronic communication with Fund members and employers where appropriate. This is a long, steady process but has already helped to cut costs in printing and IT over the last few years.

5.2 The triennial actuarial valuation has understandably taken a lot of resource during 2013. The process is well under way and discussions have already been held with the district treasurers about the preliminary results.

5.3 As mentioned earlier the new LGPS scheme comes into effect on 1st April 2014 and the Authority is actively preparing for the implications of the new scheme. The recent Employers forum focussed on the new Scheme and what would be required from employers.

5.4 As Members are aware the pensions administration system that is used to store member data and perform benefit calculations is an ageing one and whilst it is working satisfactorily at the moment we have been advised that it will not be supported beyond 31 December 2014 by the existing system supplier. The Authority has participated in a framework agreement to look at systems available. The current system is being updated for the new scheme and this has incurred a cost which has been taken from reserves in 2013/14 and is included in the 2014/15 estimate. It is anticipated that we would move to a new system in 2014/15 and this is subject to a separate report at this meeting. The budgetary consequences are part of that report and so the budget presented here simply assumes status quo.

5.5 Actuarial fees

As more and more schools are taking academy status the number of employers in the Fund is increasing significantly. As these academies come on board the actuarial costs related to them are being paid out immediately by the Authority and then being recharged to the academy via the deficit calculation. This causes an unbalanced view on what is being spent by the Authority on actuarial fees. The figures in this report only include genuine actuarial costs incurred by the Authority. Appendix A shows the amount that is estimated to be spent in respect of academies and recharged via the deficit for 2013/14 and 2014/15 as a separate line for information. The amount spent so far this year (to end of September) is just over £47,000. It is extremely difficult to try to estimate how much this will be for the full year and for next year as it depends entirely on how many schools elect for academy status.

6 Budget Assumptions

6.1 The initial planning guideline for 2014/15 was a 'continuation of service' budget based on maintaining current levels of service and current levels of price inflation of about 2.7% although some suppliers have already indicated price rises of up to 4.5% this year.

Allowance has been made for a pay increase of 1% in the estimates as it is anticipated that employers will award a pay increase for 2014/15, although it is difficult to predict what the outcome of pay negotiations will be.
No allowance has been made within the budget for developments or improvements in service.

6.2 The budget for 2014/15 to maintain the current level of service is shown in Appendix A at £5,433,600 against the base 2013/14 budget of £5,417,900.

This is an increase of £15,700 on the overall budget. Many budget heads have been held at cash which in real terms equates to a reduction in budget.

Appendix C shows the main variations.
One of the largest variations comes from the reduced actuarial fees as the peak was in 2013/14 due to the triennial valuation. Over 60% of the Authority controllable budget is on employees and savings have been made in respect of redundancies made during 2013/14. Employee costs include an allowance for a 1% pay increase. These savings are offset by the increase in superannuation contributions. The following table highlights the key costs / savings:-

	£
Increased costs	
Increments/ grade progressions	26,500
Increased superannuation contributions	26,000
Investment management expenses linked to market value of the fund	30,000
Pay inflation	28,000
Price inflation on major contracts	16,000
Offset by savings	
Reorganisation / redundancies	68,600 CR
Reduced actuarial fees	60,000 CR
Reduction in SYJS recharge	8,500 CR

6.3 As can be seen at paragraph 3.5 the Authority has consistently endeavoured to underspend its annual budget. This has enabled a small Contingency Reserve to be established for the purpose of 'smoothing' cost impacts such as the Triennial Valuation. The budget for 2013/14 was approved including utilisation of this Reserve in order to maintain a cash standstill position. The revised position shows that we should need to use a smaller amount form the Reserve. This would leave the Contingency Reserve at a level of around £161,000. In order to maintain the same cash standstill in 2014/15 would require using around £45,900 of the reserve and leaving the Authority with a reserve of £115,000 and in a position to absorb any costs associated with future workload uncertainties and/or other unforeseen cost pressures.

7 Developments over the next few years

7.1 As already mentioned 2013/14 is a valuation year and this always brings additional work as we strive to ensure the data is as up to date as possible. This also involves an asset and liability study and extra work across the Authority. The results of the valuation will need to be communicated to a growing number of employers.

7.2 The new LGPS scheme comes into force on 1st April 2014 and we will need to fully interpret and implement the new scheme and then communicate this to scheme members. Systems will need to be able to cope with the new scheme and the first couple of years will see a bedding down of the scheme.

7.3 The government is in the process of consulting on the future of the LGPS with talk of joint working and fund mergers. At the moment these are fairly uncertain times and it is impossible to forecast what may happen over the next couple of years.

8 Implications of making further reductions in the budget

8.1 The budget has been produced on a standstill basis. However, it would be useful to assess the implications of any further cuts in 2014/15, as a means of setting a base reference point.

8.2 It is important to relate the calculation to the controllable base budget figure. This should exclude all costs that are related to market values, to avoid misleading results (a big increase in investment values, which is obviously good for the Fund, will generate extra external management fees, and will make the administration costs budget appear overspent). Excluding external management and custodian fees would reduce the controllable total in 2013/14, and 2014/15.

To illustrate the impact of adjusting the figure to identify controllable costs, the savings targets under the simple one off reduction option would be as follows:

	Total budget £000	Controllable budget £000
2014/15 Base	5,387	4,407
1% reduction	54	44
2%	108	88
3%	162	132

8.3 In the past Members have indicated that the following assumptions should be made when addressing reductions in costs.

- Avoid cutting back on internal investment manager resources
- Focus initially on non staff costs
- Be aware of the likely increase in demand from employers
- Ensure continuity of resources to meet future LGPS restructuring

9 Implications of potential reductions

9.1 Even at the lower end of the scale, there are potential implications for service levels resulting from reductions in the budget guidelines. As Members are aware, most non-staff budgets have been cash limited in recent years as a way of reducing the annual increase. A high proportion of the Authority's budget is staff related (51% overall; 63% if investment management fees are excluded). A substantial proportion of the remainder is on professional fees, IT and communication costs, and accommodation. This means that budget reductions will inevitably impact on staffing levels at quite an early stage. The Authority is not carrying excess capacity; as a primarily in-house managed investment operation, staffing levels on the investment and investment accounting team are driven by the value of the Fund and South Yorkshire's costs are significantly lower than the average fund as a consequence. In addition, as noted earlier, the national benchmarking returns show Fund Administration costs in very favourable terms, which suggests that there are not major savings to be released without affecting the quality of service. The Authority continues to look for savings wherever they are possible and as a result some redundancies have occurred in 2013/14.

9.2 Many areas of the budget are interlinking, and reductions in one area could have an adverse effect elsewhere. For example, cutting back on support costs within the Investment team could mean the Investment Managers having to pick up more "back office" functions. Similarly reductions in technical support, or communications and advisory services could mean not only reduced quality of service, but increased risk of errors occurring which would create extra demands in the longer term.

9.3 The budget forecasts have been put forward bearing all of these things in mind. Major savings have been identified in every area possible. Any further savings to be achieved would have to come from staffing. Members are asked to indicate whether they wish this specific area to be explored for further consideration as part of this budget round.

10 Other Implications

10.1 Legal
There are no legal implications.

10.2 Diversity
There are no specific diversity implications.

10.3 Risk
There are a number of possible risks for the Fund associated with the implementation of the new LGPS scheme: structural reform to contributions and benefits with implications for both the short and long term workloads of the Authority and contributing employers.

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.

S Pick
Clerk and Treasurer

Officer responsible: Bev Clarkson, Head of Finance, South Yorkshire Pensions Authority
Background papers used in the preparation of this report are available for inspection at the South Yorkshire Pensions Authority.
Other sources and references: none

APPENDIX A

SOUTH YORKSHIRE PENSIONS AUTHORITY

ADMINISTRATION AND INVESTMENT EXPENSES

REVENUE ESTIMATES 2014/15 AT OUTTURN PRICES

SUMMARY

	2013-14 ORIGINAL ESTIMATE £	2013-14 PROBABLE OUTTURN £	2014-15 **ESTIMATE** £
ADMINISTRATION EXPENSES	2,955,600	2,874,600	2,934,900
INVESTMENT EXPENSES	2,462,300	2,506,600	2,498,700
	5,417,900	5,381,200	5,433,600
CONTINGENCIES	-60,200	-23,500	-45,900
TOTAL EXPENDITURE REQUIREMENT	**5,357,700**	**5,357,700**	**5,387,700**
INVESTMENT COSTS LINKED TO MARKET VALUES	950,000	950,000	980,000
NET CONTROLLABLE BUDGET	4,407,700	4,407,700	4,407,700
RECHARGED TO:			
FUND	5,207,700	5,207,700	5,237,700
SYPT PENSION FUND	150,000	150,000	150,000
	5,357,700	**5,357,700**	**5,387,700**
ACTUARIAL WORK CHARGED TO FUND	90,000	95,000	95,000

MEMORANDUM ITEM

DISTRICT OFFICES			
Barnsley	98,100	94,700	97,300
Doncaster	105,100	107,200	111,100
Rotherham	81,200	80,200	83,300
Sheffield	115,900	115,700	115,700
	400,300	397,800	407,400

SOUTH YORKSHIRE PENSIONS AUTHORITY

ADMINISTRATION EXPENSES

REVENUE ESTIMATES 2014/15 AT OUTTURN PRICES

	2013-14 ORIGINAL ESTIMATE £	2013-14 PROBABLE OUTTURN £	2014-15 **ESTIMATE** £
EXPENDITURE			
EMPLOYEES			
Administration and Clerical	1,874,500	1,775,000	1,894,300
Training Expenses	14,500	14,500	14,500
Other Indirect Expenses	26,000	55,200	25,000
PREMISES RELATED EXPENSES			
Rents - Office Accommodation	140,000	140,000	140,000
TRANSPORT RELATED EXPENSES			
Public Transport	3,000	3,000	3,000
Car Allowances	7,000	7,000	7,000
SUPPLIES AND SERVICES			
Equipment, Furniture and Materials	13,800	13,800	13,800
Publications	200	200	200
Printing and Stationery	75,500	74,000	75,500
Communications and Computing			
Postages and Telephones	110,000	110,000	110,000
Computer Services	25,000	25,000	25,000
Imaging maintenance	18,000	18,000	18,000
AXIS	109,500	109,500	120,500
Subsistence and Conferences	2,200	2,000	2,200
Subscriptions	9,000	9,000	9,000
Actuarial Fees	90,000	90,000	50,000
Legal Services	2,000	6,000	2,000
Other Professional Fees	50,000	45,000	50,000
Miscellaneous Expenses	9,000	11,000	9,000
CENTRAL EXPENSES			
Joint Secretariat	310,000	310,000	301,500
IT Network	47,000	47,000	47,000
Insurances	26,000	26,000	26,000
Subscriptions	5,000	5,000	5,000
Audit Fee	50,000	45,000	50,000
Bank Charges	22,000	22,000	22,000
Democratic Representation	14,000	10,000	14,000
Member Training	8,000	7,000	8,000
Disaster Recovery	5,900	5,900	5,900
GROSS EXPENDITURE	**3,067,100**	**2,986,100**	**3,048,400**
MISCELLANEOUS INCOME	111,500	111,500	113,500
NET EXPENDITURE	**2,955,600**	**2,874,600**	**2,934,900**

SOUTH YORKSHIRE PENSIONS AUTHORITY

INVESTMENT GENERAL AND INVESTMENT MANAGEMENT EXPENSES

REVENUE ESTIMATES 2012/13 AT OUTTURN PRICES

	2013-14 ORIGINAL ESTIMATE £	2013-14 PROBABLE OUTTURN £	2014-15 **ESTIMATE** £
EXPENDITURE			
EMPLOYEES			
Administration and Clerical	921,000	909,600	913,100
Training Expenses	4,100	3,300	4,100
Other Indirect Expenses	4,700	55,900	4,800
PREMISES RELATED EXPENSES			
Rents - Office Accommodation	40,000	44,000	44,000
TRANSPORT RELATED EXPENSES			
Public Transport	8,400	8,400	8,400
Car Allowances	3,500	3,500	3,500
SUPPLIES AND SERVICES			
Equipment, Furniture and Materials	6,700	5,500	6,700
Publications	4,100	4,100	4,300
Printing and Stationery	3,000	3,000	3,000
Communications and Computing			
Postage and Telephones	300	300	300
Computer Services	8,500	8,500	8,500
Subsistence and Conferences	1,500	1,500	1,500
Subscriptions	30,000	43,000	48,000
Actuarial Fees	40,000	40,000	20,000
Legal Fees	1,000	1,000	1,000
Other Professional Fees	35,000	25,000	35,000
Miscellaneous Expenses	2,000	2,000	2,000
INVESTMENT GENERAL EXPENSES	1,113,800	1,158,600	1,108,200
INVESTMENT MANAGEMENT EXPENSES			
Internal Information Systems	304,000	304,000	313,500
Custodian & Other Investment Expenses	251,000	251,000	261,000
External Management Fees	793,500	793,000	816,000
INVESTMENT MANAGEMENT EXPENSES	1,348,500	1,348,000	1,390,500
NET EXPENDITURE	**2,462,300**	**2,506,600**	**2,498,700**

APPENDIX B

SOUTH YORKSHIRE PENSIONS AUTHORITY
VARIATION STATEMENT
REVISED ESTIMATE 2013/14

		£	£
1	**Original Estimate 2013/14**		**5,417,900**
	Main Variations		
2	**Employee Costs**		
	Reorganisation /redundancies – pay and oncost	14,300 CR	
	Redundancy / fund strain costs paid in full rather than over 3 years (re Admin/Investments)	84,300	
	Reduced staff advertising	3,000 CR	
	Increased turnover including restricted cover for maternities	67,200 CR	
	NI and super – less increase than anticipated	29,400 CR	29,600 CR
3	**Rent**		
	Anticipated increase in service charge due to increased utility bills	4,000	4,000
4	**Supplies and Services**		
	Further efficiencies in printing/stationery costs	1,500 CR	
	Reduced office equipment costs	1,200 CR	
	Increased legal fees	4,000	
	Increased subscription for voting / responsible investment. (supplementary approved Feb 2013)	17,000	
	Reduced costs of medical advisors and less consultancy used for investment advice	15,000 CR	3,300
5	**Central Expenses**		
	Reduced democratic costs and member training	5,000 CR	
	Reduced audit fees	5,000 CR	10,000 CR
6	**Other Minor Variations**		4,400 CR
7	**Revised Estimate 2013/14**		**5,381,200**

APPENDIX C

SOUTH YORKSHIRE PENSIONS AUTHORITY
VARIATION STATEMENT
ESTIMATE 2014/15

		£	£
1	**Original Estimate 2013/14**		**5,417,900**
	Main Variations		
2	**Employee Costs**		
	Increments and career grade progression	26,500	
	Reorganisation / redundancies	68,600 CR	
	Increase in superannuation contributions	26,000	
	Reduced rechargeable pensions	1,000 CR	17,100 CR
3	**Rent**		
	Anticipated increase in service charges due to increased utility bills	4,000	4,000
	(rent review was due in April 2012 but no increase in rent anticipated)		
4	**Supplies and Services**		
	Increased cost of Member Administration system due to Incorporation of new scheme	8,000	
	Increased subscription for voting / responsible investment. (supplementary approved Feb 2013)	17,000	
	Reduced Actuarial Fees	60,000 CR	35,000 CR
5	**Central Expenses**		
	Reduced SYJS recharge	8,500 CR	8,500 CR
6	**Investment Management Expenses (linked to market value)**		
	Increased custody fees	10,000	
	Increased property advisor fees	20,000	30,000
7	**Other Minor Variations**		1,700 CR
			5,389,600
8	**Inflation**		
	Pay assumed 1%	28,000	
	Prices (on major contracts only) (assumed at 2.7%)	16,000	44,000
9	**Estimate 2014/15**		**5,433,600**

APPENDIX D

SOUTH YORKSHIRE PENSIONS AUTHORITY
BUDGET 2014/15

ESTIMATED RECHARGES TO SOUTH YORKSHIRE DISTRICT COUNCILS

Responsibility for early retirement compensation payments awarded by the former South Yorkshire County Council and South Yorkshire Residuary Body passed to the Pensions Authority when it was created in 1988. However, the same statutory instrument that created the Pensions Authority made provision for the four District Councils to reimburse the cost of those payments on a proportional basis according to the size of their population. The Levy is the mechanism by which that reimbursement is achieved.

1 Probable Outturn 2013/2014

	Barnsley £'000	**Doncaster £'000**	**Rotherham £'000**	**Sheffield £'000**	**Total £'000**
Rechargeable Pensions	2,556	1,952	1,356	6,714	12,578
Levy	99	121	108	218	546
	2,655	2,073	1,464	6,932	13,124

2 Estimates 2014/15

(i) Payments due under 1987 Order (Levy)

Ex SYCC and WYCC Employees	543	
Gratuities	-	
Levy 2014/15		**543**

(ii) Total payments by District

	Barnsley £'000	**Doncaster £'000**	**Rotherham £'000**	**Sheffield £'000**	**Total £'000**
Rechargeable Pensions	2,625	2,005	1,393	6,877	12,900
Levy	99	120	107	217	543
	2,724	2,125	1,500	7,094	13,443

(a) Apportionment of costs under the 1987 Order (ie the levy) is based on the Council Tax base for each District Council.
(The above figures are based on estimated Council Tax Bases and will be recalculated as appropriate when actual figures are available).

(b) Pensions administration and investment management costs are borne by the Pension Fund.

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SOUTH YORKSHIRE
PENSIONS AUTHORITY

Business Planning and
Performance Framework 2013/14
for the Pensions Service
and Pensions Authority

Performance Snapshot Report
2013/14: Q2

ISSUED: November 2013

The strategic framework in outline

Pensions Service Strategic Objectives	Area of Impact	
1: The Best	1.1:	Engaging with all our partners, including employers, to ensure that we understand and meet their agreed needs
	1.2:	Providing an accurate and timely service to all customers
	1.3:	Gaining and retaining external recognition through quality standards awards such as Charter Mark and Customer Service Excellence
	1.4:	Ensuring that we continue to provide Value for Money
2: Investment returns	2.1:	Monitoring performance against the adopted benchmark and targets
3: Responsible Investment	3.1:	Developing and implementing a responsible investment policy that is compatible with the fiduciary duties of the Fund
	3.2:	Adopting a voting strategy and guidelines specific to the Fund's requirements and ensuring that it is regularly reviewed in accordance with industry best practice
4: Valuing our Employees	4.1:	Maintaining a competent, valued and motivated workforce.
	4.2:	Encouraging personal development to improve knowledge, skills and effectiveness.
5: Pensions Planning	5.1:	Providing information through written material to all customers
	5.2:	Developing interactive website facilities
	5.3:	Encouraging attendance at annual events to provide forums for discussion
	5.4:	Maintaining an "on-site" presence to address personal concerns
6: Effective and Transparent Corporate Governance	6.1:	Clarifying functions and roles towards delivering a common purpose
	6.2:	Promoting good governance through upholding high standards of conduct and behaviour
	6.3:	Developing the capacity and capability of members and officers to be effective
	6.4:	Ensuring robust accountability

Snapshot performance results for each Strategic Objective and Area of Impact appear on the following pages

Pensions Service Strategic Objectives

1. The Best

Area under Review	Activity During Quarter	Target	Status/Comment
Transactions with Members	17783 cases of which 99.7% were on target	97%	Performance down slightly on previous quarter but 1780 more cases processed and 2576 more than the quarter before that

2. Investment Returns

Area under Review		Target	Status/Comment
Fund Value	£5293.6m	N/A	£5115.0m at end June
Performance Against Benchmarks	Qtr 2.9% YTD 1.0%	Qtr 3.0% YTD 0.9%	Global markets continued to be impacted by fears that the Fed would taper its QE programme.

3. Responsible Investment

Area under Review	Activity During Quarter	Target	Status/Comment
Responsible Investment	Revised the Voting Guidelines and the Statement of Investment Principles in September. Responded to the CLG Consultation on the future of the LGPS.	-	Ongoing

4. Valuing Our Employees

Area under Review	Activity During Quarter	Target	Status/Comment
Staff Turnover	1 Leaver – Recruitment underway	Annual 4.25%	On Target
Staff Training	LGPS 2014 Training	Plan 100% up to date	On target
Sickness Monitoring	- 3.1% total	None	Up 0.2% on previous quarter due to a couple of longer term absences

5. Pensions Planning

Area under Review	Activity During Quarter	Target	Status/Comment
Interactive Facilities	12 new employers registered for EPIC 75% of registered employers who submitted information did so via EPIC 265 new members registered for MyPension	N/A	212 employers (89%) now registered for EPIC Seeking a solution for payroll providers to multiple employers. Small number of forms issued via post. 12469 Members now registered in total.
Face to Face Communication	658 Advisory Sessions Held	Less than 0.5% complaints	No complaints received. Numbers seen up by80 compared to previous quarter.

Employer Activity	23 New Employers (18 Academies & 5 Transferee Admission Bodies)	N/A	At the end of September 2013 we had 316 participating employers of which 249 had active members. and there are a further 41 in the pipeline.

Pensions Authority Strategic Objectives

6. Effective & Transparent Corporate Governance

Area under Review	Activity During Quarter	Target	Status/Comment
Internal Audit **Annual and Quarterly Reports**	July – Internal Audit Progress Report reviewed by CP&GB	100%	On target
External Audit **Reports /Plans**	July – KPMG Annual Governance Report considered by CP&GB	100%	On target
Risk Management Annual and Quarterly Reports	July - Risk Register considered by CP&GB	100%	On target
Constitution Policy /Procedure Revision Dates	No updated reported	100% Up to date	
Financial Reporting	Budget Monitoring report – Quarter 1 considered by CP&GB	100% achievement of reporting schedule	On target.
Annual Governance Statement Conclusion		No Significant Weaknesses	Accuracy of pay and contributions identified. Action continuing.

Annual Self-Assessment			
Member Training	August – 7 Members attended training on Governance Arrangements. August – 3 members attended Induction session. September – 7 Members attended Fundamentals Refresher Training. September – 9 Members attended training on the Future Structure of the LGPS .	100% Induction & Fundamentals Training & Fundamentals Refresher	100% had induction. 75%had Fundamentals Day 1. 75% had Fundamentals. Day 2. 75% had Fundamentals Day 3. 58% had Fundamentals Refresher Training

SOUTH YORKSHIRE PENSIONS AUTHORITY

21 November 2013

Scheme Members' AGM

1. Purpose of the Report

To report on the meeting held on 10 October 2013.

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2. Recommendations

Members are recommended to note the contents of the report.

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3. Information

3.1 This year's AGM for scheme members was held at The Source in Sheffield on the evening of 10 October. There were 56 members present, as follows –

- 40 Pensioners
- 6 Contributors
- 3 Deferred members
- 2 Representatives from employing bodies
- 5 Councillors

3.2 After introductions and a welcome from Steve Pick (Clerk and Treasurer) and Councillor Goulty, (Chairman of the Authority), presentations were made by -

- John Hattersley – Fund Director
- Gary Chapman – Head of Pensions Administration

Questions were taken in an open forum at the end of the meeting.

3.3 Cllr Goulty – Chairman

Cllr Goulty opened by welcoming members to the meeting.

Cllr Goulty went on to say this was his first meeting as chair, however he had been a member of the Authority since 2008.

He commented that since the year end in March the Authority had been very busy with the actuarial valuation, and preparing to review the investment strategy in light of the actuarial results.

Cllr Goulty went on to say we also had two other consultations to contend with on the future of the scheme. He said this was all happening while we wait for the final 2014 scheme proposals and against the backdrop of on-going retirements and redundancies through budget cuts, commenting the next few months are going to be more of the same.

3.4 John Hattersley – Fund Director

John opened saying he likes to start his presentation by emphasising the linkage between investment returns and pension fund performance and the strength of the pension fund. Saying it's always important to remember the purpose behind the investment, which is to ensure the fund liabilities (i.e. the pension fund commitments) can be met. Saying we often get too involved in deciding whether it's best to invest in M&S or in Next rather than the big question which is should we be investing at all, if so should it be in property rather than equity. John stated it's even more important considering the present economic environment; we need to make sure we have the bigger economic picture as over the last few years since the financial crisis it has become increasingly important.

John made reference to the economic financial landscape for the rest of the economies, saying it has significantly changed since 2007/2008. It has fundamentally altered the way investors think and react.

He said it has always been a struggle to balance the inherent conflict obtaining a reasonable financial return and exposing yourself to too much risk. When investing in a long term pension fund two of the most important factors you have to think about are interest rates and income yield, without a steady stream of income it's difficult to maintain the pension promise.

John moved on saying UK interest rates have been held at a historically low level of 0.5% for four years. The annual rate of inflation however is now touching close to 3%, stating in simple terms, that hurts the pension fund. John explained that one of the reasons behind such historically low interest rates is a massive injection of liquidity that central banks have been putting into the financial system in order to bail out the banks and try and stimulate the economy. Saying the United States are currently injecting a huge amount of money into the economy, and that so much cheap money has depressed interest rates around the globe and severely distorted the world's financial markets. A clear indication of this is the fall in bond yields. Bonds are traditionally the safest form of investments, and those issued by Government, especially western Governments, are normally seen as the safest of the safe. In 1996 bonds were 7 - 8% they are now below 2.1%.

John went on to say when the actuary values the liabilities of pension funds he does so against bond yields, so if bond yields fall then the cost of the pension promise rises. A time of rising inflation and falling income that can be devastating for a pension fund. Over the last 3 year period since the last actuarial valuation was carried out, although equity and bond returns have been positive that means fund assets have grown, indeed the fund returned about 3.1% over the period. He said that liability values have actually increased significantly ahead of those returns, dominated and driven by the fall in bond yields, which means the fund deficit has risen, probably the most significant factor in the valuation process and the one we have to address.

John moved on to Asset Allocation saying we bought emerging market bonds over the year and we also kept our corporate bonds on portfolio as we get a better yield on these types of bonds. The bulk of the fund was invested in the UK market and just over £2 billion in overseas markets where we felt the short term prospects were better. John made clear that when we say it's invested in the UK market he means shares listed in London or the UK stock exchange.

Over 12 months the fund produced an overall return of 13.6% which is ahead of its expected benchmark return of 13%.

John commented that the property portfolio had another good year and for the 2nd year running we were awarded a prize by IPD an independent analysis company.

John covered Fund Accounts commenting that given the staff reduction program by the 4 main employers it's not surprising the contributions to the fund fell over the year, as both employees and employers paid less. Benefits payable also fell although the actual pension's payable element rose. The biggest change over the year was the value of the fund investments, so at the end of March the fund was worth £5.3 billion which is a year on year increase of about £600 million.

John concluded his presentation with some investment related questions.

3.5 Gary Chapman – Head of Pensions Administration

Gary started by comparing the Scheme as it is now to1976 when he started work at pensions. The changes in the scheme both in membership profile and benefit structure are significant and the main reason why the scheme is changing from April 2014.

He said we now have 310 employers' (240 of these are paying into the scheme) the increase is mainly due to reorganisations. What this means for us in terms of administration is we have more people to deal with, more employers to explain the rules to and more employers to collect money from.

Employers contribution rates now include a sizeable portion related to deficit recovery aimed at getting the fund back to 100% fully funded.

Gary then went on to look at the different types of retirement both now and in 1976. In 1976 nearly 50% retired at age sixty-five. In 2013 this was just 3%

Annual review – The number of active members continued to fall although this had slowed recently partly due to the impact of auto-enrolment.

Our performance – Gary was pleased to say we had done well again this year; we processed 28,292 cases during the year of which 99.7% were within our customer service promise, beating last year's performance of 99.5%. Gary said we are always looking to improve what we do. In terms of complaints and disputes we have very few, just 6 complaints and 1 internal dispute appeal, which against the workload we have completed measures just 0.001%. Gary commented we aim to have no complaints, but where we have made errors we have to learn from that to make sure we don't make them again.

Gary briefly mentioned surveys, saying we do lots of them and we ask for an overall satisfaction rate. The latest results show employers are 100% satisfied and members 98%. Again pleased with this figure but would prefer to be 100%.

Gary said we measure our performance against other pension funds. Our cost per member is £20.03, the average across the 52 funds is £21.42 so we are below average in terms of cost but it's not just about that it's about quality. We've participated for the last 11 years, and 10 out of the 11 years we have been below the average cost per member and above average in terms of quality.

Gary went on to cover developments – opt out strategy – stating we developed a strategy due to rumours of mass opt outs after talk that there would be a new scheme with increased contribution rates. Now anyone wanting to opt out will get a letter showing them what they would be missing out on and comparing their benefits to a private pension. Of the members receiving this information 80% have stayed in the scheme which totals roughly 500 members who have continued to contribute to the scheme.

Gary briefly mentioned interactive newsletters and hybrid mail, saying it was cheaper on postage and more efficient for us. Sale of software, saying we have a very high class IT department. They develop software for our own use which makes us more efficient. We have sold some of our software packages which means money back in to the fund.

Gary spoke about the Actuarial Valuation, saying this has involved a lot of hard work to get quality data to the actuary in time. We issued annual benefit statements in September rather than December.

A new Pensions Admin System, which we will have to buy in as this will be too large to develop ourselves, however this will be coming on stream in 2014.

CPI Forecast, Gary went on to say that CPI for August was 2.7%. This is therefore an indication of the increase to pensions from next April but the actual figure will be based on September's CPI.

2014 Scheme, Gary made clear to the audience if they were retired or a deferred member then the new scheme doesn't affect them. However went on to say the scheme is changing from next April. The major change is that we are moving from a final salary scheme to a CARE, the accrual rate is changing for the better from 1/60 to1/49. The experts have said a 1/60 final salary is broadly equivalent to a 1/49 CARE.

Contribution rates – the majority of members will be paying the same in the new scheme, the highest paid will pay more.

50/50 option – members can pay 50% contributions for 50% of the benefits for a short term period for members having affordability issues.

Retirement age increasing in line with SPA.

And finally Gary finished on Fund mergers, saying the Local Government Minister has suggested that the 89 pension funds we currently have should be reduced. This is a complicated issue but in response to consultation the fund has indicated that we wish to stay as we are. An announcement is expected around next May.

3.6 Questions from the Floor

Q. A petition has been put to the Authority that morning on the risks of fossil fuel investments. The petition noted that the world can only burn 1/5th of proven fossil fuel reserves if we are to have a good chance of remaining within 2 degrees average temperature rises that would safeguard against dangerous climate change, so the remaining 4/5th of fossil fuels have to remain in the ground leaving these assets stranded resulting in a carbon bubble. Will you therefore review your fossil fuel investments and asses the risk to your financial strategy from continuing to invest in this carbon bubble.

A. Yes a petition was served to the Authority this morning and it has been accepted and we will consider it at a future meeting. Clearly there are a lot of implications behind the question. Western economies have currently constituted to not operate without using fossil fuels, however the use of fossil fuels permeates every aspect of our lives and is difficult therefore for investment purposes to simply say it's a bad thing, therefore we'll sell them. What we need to do is construct a policy to take governance of the points raised. There is a long term issue here which we have been reviewing for some time. For example you can't grow food without using fuel of some sort. So it's a very big issue but the Authority has accepted the petition this morning and will form part of a program going forward.

Q. A follow up to the last question - to put it into context, in my life I try to do things properly so I do things like recycling and considering the ethical impact of the purchases I make. Then I come to look at my pension fund and I submitted a request to find out what the pension fund was invested in and I found things out like oil and gas and other things like Nestle, and I've been boycotting Nestle for the last 20 years. So I'm finding my pension is investing in companies that I consider are doing harm in the world. In fact they may even be doing me harm. So looking at the SYPA principles of acting in member's best interest I would ask you to put an ethical investment policy in place that considers social and environmental impact on the investments that you make.

A. The Authority does have a responsible investment policy and our view is it's better to engage with companies than disinvest. We are a founder member of the Local Authority Pension Fund Forum who actively engages with businesses to pursue these sorts of issues. Clearly we take the views of every member seriously but there are 150,000 members in the fund and from our point of view we do have a problem with making this fund sustainable and therefore we do need to invest to get an adequate financial return but because we have a responsible investment policy the two things run hand in hand and we would not consciously invest in anything which is clearly doing harm to anybody, but what is one person's ethical stance is someone else's none ethical stance. It's very difficult to measure shades of grey or green or brown which is why we have a responsible investment policy and not an ethical investment responsibility.

Q. With regards the proposed mergers of different pension funds, do you have any more detail, because if you merge with another council, do you work on the basis that if one council loses a lot of employees so loses money out of the fund does it affect all the funds or just that particular council?

A. The first thing to mention at this stage is it's less than a proposal it is only a suggestion by a minister and it's going out to consultation on whether we can save money by merging funds. There are 89 funds and they vary in size. Theoretically the bigger you are the more savings there are to be made but it's not quite as simple as that, being a larger fund doesn't necessarily increase your performance.

What does increase your performance is being internally managed, and your fund is internally managed. If you exclude expensive external managers on the administration side and the investment side then you are cutting costs. Fund profiles differ, if you try and merge funds which are 50% funded with those that are 70% or 80% funded, the implications are significant, and you need an actuarial analysis of each one. One of the issues to be raised is will the tax payers associated with an 85% funded scheme be happy to take on the burden of merging with a 45% funded scheme. There are political consequences of mergers. If there is any chance of merging it's unlikely to happen before 2018/2019. What is more likely to happen is greater co-operation between funds, as we sell software to other funds, other funds do administration or do other people's investment management, so collaborating in these areas.

Locally run funds provide a better service; you wouldn't get national funds providing face to face interviews, so there would be all sorts of implications if mergers took place.

Q . Someone said the US economy is expected to be the first out of recession, unless I'm misunderstanding it I keep hearing that the US economy is heading for some major problem in the month of October so which is right?

A. There are 2 different issues in the sense that the economy as a whole US Plc. is recovering. The housing statistics are on the up, however employment isn't performing as well as we would normally expect in this stage of the cycle but it is a general recovery. Of all the Western economies the US is the most vibrant. However on top of that you have a short term, hopefully, political issue which is 1. budget and 2. the debt ceiling. If they can't agree on increasing the US treasury debt ceiling then they will default to their loans and that will have serious consequences to everybody. However day to day America is actually recovering out of recession but if congress can't sort themselves out the implications are quite serious.

Q. I have a colleague who is 32 and I'm 49. My colleague was saying he was thinking of doing the 50/50 option, and I said no you should put more in because you have longer to work then I have. If he goes for the 50/50 option does the employer's contribution rate half as well?

A. The employer's rate will stay as it is. The member will pay less, however in line with auto enrolment he will be back in the full scheme after 3 years. He would have to continually opt back out. The intention is for people to be in it for a short period of time to get over short term affordability issues.

3.7 A full recording of the meeting is available to view at http://www.youtube.com/user/SYPensions

4. Future AGM's

Over the last two years' attendance at the Annual General Meeting has been on the decline. We are not certain of the reason for the overall attendance drop, but one possible reason may be the timing when issuing newsletters.

Given that newsletters will be issued with annual benefit and preserved benefit statements again next year in an effort to save money, regulations now require the statements to be issued in August, therefore we feel this will give the membership adequate time to return invite forms.

The communications team will also look at other possible reasons/options/ideas with a view to submitting a report of the findings in the near future.

5. 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

21 NOVEMBER 2013

Report of the Clerk and Treasurer

ADVISORY AND INVESTMENT MANAGEMENT AGREEMENTS WITH SOUTH YORKSHIRE INTEGRATED TRANSPORT AUTHORITY

1) Purpose of the report

To remind Members' of the Authority's advisory and investment agreements with the South Yorkshire Integrated Transport Authority.

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2) Recommendation

That Members note the report.

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3) Background information

3.1 The South Yorkshire Integrated Transport Authority (SYITA) is an administering authority of the Local Government Pension Scheme and is responsible for the South Yorkshire Passenger Transport Pension Fund. SYITA has entered into management agreements with this Authority to provide the general advisory, administration and investment management services required by it to fulfil its duties. These agreements were last reviewed in November 2011.

3.2 At that time the opportunity was taken to bring the contracts up to date and reflect the changes in both legislation and best practice. The Agreements cover such material matters as the management of conflicts of interest, best execution, fair treatment of customers, suitability of products and services etc. For the purposes of the Financial Conduct Authority (FCA) Rules SYPA regards SYITA as a professional client which means that SYPA expects the Authority to have already assessed the risks involved in the strategies, investments and related services covered by the Agreement with it. The draft Agreements were drawn up in consultation with the legal services unit of the South Yorkshire Joint Secretariat (SYJS) and were approved by the SYITA Pension Fund Committee.

3.3 As part of the 2012-13 Authority audit the new auditors, KPMG, indicated that it would be best practice if this Authority periodically reviewed the Agreements. Other than the contractual obligations contained within them this Authority has no liabilities arising from the relationship.

3.4 SYPA administers the benefit and member relationship operations of the Fund and has an investment management agreement which covers the investment operations. In addition, there is a general advisory agreement which provides for this Authority giving SYITA general advice on corporate governance matters and industry trends and the preparation of its Fund's accounts etc.

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3.5 The current investment management agreement (IMA) covers such material matters as the management of conflicts of interest, best execution, fair treatment of customers, suitability of products and services etc. SYPA manages the bond, UK equity, emerging market equities and property unit trust categories of the Fund and any cash held pending investment. It implements the de-risking strategy in conjunction with the Fund's actuarial consultant and independent investment advisor. SYITA employ Old Mutual Global Investors as its manager for developed overseas listed equities directly. This Authority monitors OMGI's performance on SYITA's behalf and provides administrative services associated with the maintenance of the OMGI managed portfolio.

3.6 SYITA employs its own custodian bank: SYPA does not hold client monies. SYITA also appoints its own actuary, external auditor and independent investment advisor.

3.7 This Authority charges SYITA a fee for the services it renders based upon workload and time spent (the basis of calculation differs between the administration function and the investment function) but bears its other costs (e.g. actuary, external fund management etc.) directly. Because of the need for this Authority to be regulated by the FCA in order to conduct its investment business with SYITA the costs associated with regulation etc are borne by SYITA.

3.8 The agreements with SYITA merely cover the administration and management of the Fund. This Authority has no responsibility for any aspect of the Fund not covered by the agreements. In other words, all the responsibilities that vest in an administering authority of the LGPS rest with SYITA and are not transferable to this Authority. There is no question that any liabilities of the Fund will be borne by this Authority.

3.9 There is no need to make material changes to these documents which are quite lengthy. Therefore, rather than attach them to this report copies will be made available to Members upon request.

3.10 Members are aware that Government is consulting over the potential abolition of SYITA and replacing it with a Combined Authority. Members are also aware that it is not yet clear where the responsibilities for administering the South Yorkshire Passenger Transport Pension Fund will vest.

3.11 This report is for information only.

4) Implications

4.1 Financial

There are no direct financial implications arising from this report.

4.2 Legal

There are no legal implications other than those referred to in the report.

4.3 Diversity

There are no diversity implications.

4.4 Risk

This Authority is the formal decision-making body for matters relating to the administration of the Fund and for relationships with third parties. There are potential reputational and financial risks that could arise from non-compliance with the Agreements.

S Pick
Clerk and Treasurer

Officer responsible:
John Hattersley, Fund Director

Contact telephone number: 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: None

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SOUTH YORKSHIRE PENSIONS AUTHORITY

21 NOVEMBER 2013

Report of the Fund Director

LOCAL GOVERNMENT PENSION SCHEME FUNDS DATA ENGLAND 2012-13

1) Purpose of the Report

To bring to Members' attention the publication by Communities and Local Government of data relating to the LGPS in England.

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2) Recommendation

That Members note the report.

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3) Background Information

3.1 As Members are aware, the South Yorkshire Pension Fund is but one of a number of funds established under the LGPS in the United Kingdom. Given the understandable focus on local issues it is sometimes easy to forget that simple fact. At a time of proposed national reform it is worth while remembering that SYPF does operate within a national context.

3.2 In late October the Department for Communities and Local Government released data relating to the 81 LGPS funds in England. The main points were as follows:-

- LGPS expenditure on benefits in 2012-13 was £7.5bn which was basically unchanged from the previous year.
- Employees' contributions were £1.8bn which was a 2.9% decrease from 2011-12 of £54m. Employers' contributions also fell by 3.2% or £188m.
- Investment income fell by 2% from the previous year to below £3.0bn.
- The market value of all funds as at the end of March 2013 was £167bn which was an increase of more than 13% since March 2012 and 72% since March 2009.
- There were just under 1.6m employees in the Scheme at the end of March 2013 which represents an increase of 1.2% or 19,000year on year.
- The number of people leaving the LGPS during the year because of redundancy decreased by 26%compared to the previous year.
- The number of former employees entitled to deferred benefits rose by 88,000 to 1.5m which is an increase of 6% over 2011-12 and 31% over 2008-09.

3.3 This data is based upon returns submitted on so-called SF3 forms by all English administering authorities.

4) Implications

4.1 Financial

There are no financial implications.

4.2 Legal

There are no legal implications.

4.3 Diversity

There are no diversity implications.

4.4 Risk

Members need to be adequately trained to carry out their responsibilities on the Authority and background knowledge of the LGPS assists with meeting that objective. 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.

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: CLG

SOUTH YORKSHIRE PENSIONS AUTHORITY

Meeting Date	**21ST NOVEMBER 2013**
Report of	**CLERK AND TREASURER**
Report Sponsor(s)	**S Pick, Clerk and Treasurer**
Subject	**MEMBER LEARNING AND DEVELOPMENT – SUB-REGIONAL COLLABORATION**

SUMMARY

This report provides Members with an update on the increased collaboration in respect of learning and development; across the three Joint Authorities and the four South Yorkshire District Councils.

RECOMMENDATION(S)

Members are recommended to:-

a) Note the contents of the report.

b) Support the continued collaboration on Member Learning and Development across the three Joint Authorities and four District Councils, and Police and Crime Panel where appropriate.

CONTENTS

Main Report

BACKGROUND

1. The cuts in funding across the public sector, changes in structures and priorities have necessitated a fresh look at how Member Learning and Development is procured and delivered. Many local authorities no longer have dedicated Member Development Officers, and Members have less time and more responsibilities. There was a clear need to work collaboratively to save time, money and avoid duplication.

2. Member Development Officers in the Yorkshire and Humberside Region used to meet quarterly to share best practice, network and, where possible, collectively procure events. The Local Government Yorkshire and Humber (LGYH) further supported the Group by co-ordinating and facilitating joint events and, in some cases, funding them.

3. However, during 2011 and 2012 it became clear that the changes, not just within local authorities, but also the downsizing of the LGYH would result in the Regional Group no longer being able to meet. Sub-regional groups were starting to meet on the basis that it was more manageable – and cost-efficient - to jointly procure and organise events, and less onerous for Members to travel, again saving money on fares and mileage.

4. A South Yorkshire Member Development Officer Group had been established, but not met for some time so, in July 2011 the Joint Secretariat undertook to resurrect the Group, primarily – at that time – to make a bid for Regional Improvement and Efficiency Programme (RIEP) monies, but also to share training plans and look to jointly procure events. The Group met in September 2011 and has continued to meet on (at least) a quarterly basis since with the Joint Secretariat co-ordinating the agendas, providing minute-taking etc.

5. As mentioned above, the SY MDO Group submitted a bid to the LGYH for £3,000 of RIEP funding, and this was successfully awarded in March 2012. The bulk of this money was used to run a joint (sub-regional) event – 'Being an Effective Community Leader' in June 2012 which was very well-received, and was subsequently followed up by more practical Social Media courses in each District (also funded from the £3,000).

CURRENT POSITION

6. Through Barnsley MBC, the SY MDO Group are working with the Local Government Information Unit (LGIU) to deliver events that would appeal to all District Council Members, e.g. The Changing Face of Local Government Finance, the work of the Police and Crime Commissioners, Regenerating Local Economies etc. Co-procurement will achieve efficiencies and, where possible, events will be replicated across the four Districts therefore giving Members more flexibility.

7. Generic learning, e.g. Chairing Skills, Questioning and Listening (Scrutiny), Dealing with the Media etc. is, where possible, being jointly procured and places shared amongst the three Joint Authorities and four Districts. At present there is an informal arrangement around re-charging to reduce unnecessary officer time and administration costs. Places are, primarily, offered on a 'quid pro quo' basis. The ultimate aim is to develop a South Yorkshire Learning Programme accessible by all Councillors covering a range of generic topics. It is accepted that there will always be an element of bespoke learning that is delivered 'in-house' for District Councillors, e.g. Planning, Licensing etc. Similarly, the Joint Authorities continue to run sector specific learning for Fire, Transport and Pensions.

8. The LGYH has been reduced in size and has limited resources to devote to Member Development. However, an officer continues to provide as much support as possible to local authorities across the Region, including advice on recommended (preferred) trainers, funding opportunities etc.

9. The Joint Secretariat is taking a leading role in co-ordinating sub-regional learning, and fostering greater collaboration with Districts, in particular Barnsley and Rotherham. Whilst there are some organisational and budgetary barriers, the current informal arrangement is working well and going from strength to strength. The Police and Crime Panel Members have also been approached, through Rotherham MBC, to attend any learning and development they feel would strengthen their role.

10. The events we have already run, and are proposing to run, are given below:

Read Faster Workshop, Tuesday 15th October 2013

Procured by the Joint Secretariat, this half-day session was attended by 7 Members from across the three Joint Authorities and District Councils, and 4 officers from Rotherham MBC with the aim of improving skills to increase their current reading speed without losing any of the understanding, and to improve their ability to analyse text and extract key points.

Chairing Skills, November 2013 , Monday 11th November 2013

Originally procured by the Joint Secretariat, Barnsley MBC were keen to book between 9 and 12 places. It was, therefore, felt sensible to hand over the organisation to Barnsley, but to allocate a small number of places to those Joint Authority Members who had already expressed a desire to attend. One FRA Member attended this event.

Treasury Management, Wednesday 27th November 2013

Annually organised and procured by the Joint Secretariat for Audit Committee Members from Fire, Pensions and Transport. This year members from PCC Audit Committee and officers from the Pensions Service will also be participating. This event is extremely well subscribed with (currently) 24 people attending.

Effective Audit Committees, 5th December 2013 (pm – after ITA)

Procured by the Joint Secretariat, this (free) half-day session will be offered to Joint Authority Audit Committee Members by the Head of Internal Audit from Barnsley MBC.
(NB: The date of this event may be changed).

Questioning and Listening (Scrutiny) Skills (to be arranged)

Procured by the Joint Secretariat, this event will be run early in the New Year and offered to Members from the three Joint Authorities, four Districts and the Police and Crime Panel Members. Interest has already been expressed by Rotherham MBC.

THE FUTURE

11. The Joint Secretariat will continue to arrange and co-ordinate the SY MDO Group, and be the 'point of contact' for identifying, procuring and organising generic learning and development. As mentioned in paragraph 7 above, the ultimate aim is to have a SY Member Learning and Development Programme covering a range of generic learning which is accessible to all SY Councillors.

CORPORATE RISK ASSESSMENT & BUSINESS CONTINUITY IMPLICATIONS

12. More than ever, the issues facing local authorities require elected Members to be as knowledgeable and skilled as possible. It is important that Member Learning and Development continues to be provided to ensure informed decision-making.

FINANCIAL IMPLICATIONS

13. Each District Council will have its own Member Development budget, but these have been significantly reduced. The Pensions Authority has a budget for 2013/14 of £8,000 of which there is currently £3725 left. Jointly procuring learning and development and sharing accommodation will allow maximum return on funding. There may be additional travel expenses incurred by Members travelling to other areas of the County, but this should be balanced out by the saving on running one event rather than four.

14. Industrial Relations, Legal, Asset Management, Environmental and Sustainability, Equality and Inclusion, and Communications implications have been considered in compiling this report. Unless specifically addressed above there are no specific implications.

List of background documents		
None		
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SOUTH YORKSHIRE PENSIONS AUTHORITY

21 November 2013

Pooling Arrangements for Academies within the Local Government Pension Scheme

1. Purpose of the Report

To inform Members of the response to recent consultation on Academies

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2. Recommendations

Members are recommended to note the contents of the report.

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3. Background

3.1 In October DCLG launched its consultation 'Pooling arrangements for Academies within the LGPS'. The consultation closed on 15th November.

3.2 The aim of the consultation is to facilitate the establishment of academies by trying to achieve a greater stability of contribution rates for them within the LGPS. The background to this is the fact that some authorities have been adopting more conservative funding strategies for new academies than those for the ceding authority leading to high contribution rates and deficit recovery lump sums. There are other demographic considerations as well but in the main it is the marked difference of funding requirements depending on which area of the country the academy resides.

3.4 The consultation period has been brought forward from the original date of 25 November to 15 November 2013.

4. Consultation Response

4.1 DCLG have asked for a response on six key questions. At the time of writing officers were still considering a detailed reply but the essence of the response was as follows,

1. **The proposal for this consultation is that stability of a converted Academy's scheme employer contributions will be best achieved by pooling the scheme arrangements of Academies and the ceding local authority. Is this the best way to achieve the stability needed? And, if not, what are the other solutions?**

   Fundamentally, we believe that each employer should be responsible for its own financial position, and therefore pooling arrangements should not be the norm. The key to operating this arrangement is the 'fair allocation' of deficit at inception and the funding principles applied in light of the DfE guarantee. In our view this is perhaps more important than pooling itself which after all is a simple "averaging" across the employers in the pool. Being consistent in the allocation/treatment of deficit with the contributions being paid by the LEA schools will give rise to stability at conversion but not necessarily on an ongoing basis as contribution requirements will, in part, be determined by the experience of the Academies themselves. Certain aspects of this can be stabilised in a pooled arrangement but not all and it does not follow that the contribution outcomes will be more stable than a standalone arrangement. This is especially true if pooled with the Council and in fact could mean significant cross subsidy of cost from the Council to the Academy in the current environment.

If pooling was desirable then it needs to reflect the financing arrangements underpinning the concept of the Academies. Therefore we strongly believe pooling with the local authority is not at all appropriate, given that academies have left local authority control and the intention is there is a clear line of sight back to the DfE i.e. a level of transparency of cost is fundamental to the policy requirements of the DfE.

One option to achieve better stability in Academy contributions would be to continue with the stand alone arrangements but implement a pooling arrangement covering certain costs due to specific demographic factors such as ill health retirement costs, death benefit etc. This arrangement should be attractive to the Academies also given this would, all other things equal, achieve better ongoing stability of costs.

2. **What bodies should be included in the pool: Academies and local authorities, Academies and local authority maintained schools, or only Academies? Please say what other arrangements would achieve this aim.**

The question seems to presuppose that pools will be introduced and for the reasons stated above we do not believe full pooling is necessary if the treatment of Academies at conversion and on an ongoing basis is reasonable. We could however support a pooling arrangement for Multi-Academy Trusts in the same Fund if desired as this could ease the administrative burden on the Funds and the Trust.

If a pool did need to be introduced then we do not believe this should be with the ceding Council for the reasons in question1. above.

The other options are to pool with the LEA schools or a pool comprising academies (including existing academies) only. Whichever is chosen then the Academies themselves need to understand the consequences of being in the pool. These two other options have various advantages and disadvantages (in addition to the ones relating solely to pooling as noted above).

Pooling with the LEA schools: This has the advantage that it is dealt with consistently in terms of the financing of the costs. This is because the funding of the LEA schools (through the Dedicated Schools Grant) and the funding of the Academies comes directly from the DfE. In addition the consistency of the treatment with all LEA Schools both at conversion and on an ongoing basis is preserved. The major disadvantage here is that on a practical level a number of the LGPS Funds would find it extremely difficult to split out the LEA schools from the Councils as the records and payroll functions are not set up this way. It would mean a potentially significant cost in system upgrade and creation of historic administration records. Further, it would still require the Funds to track academies separately for accounting purposes and also require careful agreement over the funding rules if an academy was to exit the Fund and there was a call on the DfE guarantee which does not apply to the LEA schools. The governance of such an arrangement would need to be clearly defined in the Fund policy documents and in particular the Funding Strategy Statement. Also, to preserve transparency of cost and budgets for the ceding authorities, Funds are also likely to need a pool for each Council resulting in a number of separate pools for certain Funds. Whilst this adds to the administrative burden it should not be difficult to manage once set up.

Pooling the Academies: This has the advantage that it is relatively simple to explain and administer as it would only include the existing and new academies across the Fund. It would not however follow that the ongoing consistency with ceding Authorities LEA schools would be maintained. A possible disadvantage with operating one pool would be that no distinction would be applied to converting schools from different Authorities unless separate academy pools are kept relaing to the original ceding authority.

Whilst we do not believe full pooling is warranted, if mandatory pooling were to apply we would favour simply pooling the Academies only.

3. ***If pooling regulations are introduced, should an organisation have a choice about membership of the pool, and should this choice be permanent?***

We do not believe there should be a choice for the employer as it is impractical for the Funds to manage. If a pool was implemented it should be permanent and have clearly defined rules of operation – especially around an Academy exit from the pool. We also believe that existing Academies should be included in any pool to avoid maintaining two distinct groups and therefore potentially different treatment.

Also, in our experience, only a minority of Academies have the expertise to understand the consequences of the decision, and we suspect that, if given the choice, the majority would simply opt for the approach which generated the lowest initial employer contribution rate. This would not be in the interests of the existing pool as essentially the cost could trend upwards as the Academies with a “standalone” lower contribution outcome would choose not to join whereas those with a standalone higher contribution outcome would.

4. **Should actuarial assumptions used for all employers in the pool be agreed at local level with expert advice from the fund actuary? Or should expert guidance be developed for use by each fund?**

In our view the actuarial assumptions should be agreed at local level having regard to advice provided by the Fund Actuary in the same way as other employers (including Councils). It would seem perverse for an Administering Authority to have responsibility for the funding for other employers and the

Fund as a whole, but for the guidance on funding assumptions for Academies to be provided from an external source. We see no reason that guidance cannot be provided on certain parameters applied for funding for Academies, to ensure fair treatment for the Academies vs. LEA schools given the existence of the DfE guarantee e.g. around deficit recovery periods etc and it parameters like the recovery period which is key to the maintenance of a stable contribution rate. However, any guidance must be set up so it cannot fetter the ability of the Administering Authority to prudently manage the liabilities of the Fund.

5. **What provisions might be needed to avoid any additional costs where transfers of assets and liabilities have already been made as a result of academy conversions?**

   At a practical level this should not pose any particular difficulties as any transferred assets and liabilities would simply be allocated in their entirety to the pool and a total "average" contribution would be assessed. Going forward all academies would have the same pooled rate. However this would inevitably result in winners and losers from the current academies in terms of contribution requirements unless they are already pooled. In our view we think a one off change in the position is much more preferable to maintaining two distinct treatments under any pooling arrangements. It would also be in line with the DfE policy on the consitency of treatment so the Funds could not be criticised for different treatment for academies depending on when they convert.

6. **If any administering authority has satisfactory arrangements already in place, or is in the process of implementing solutions that satisfy all parties, please could you provide a brief description of them? It is not the intention to disrupt successful local solutions, but rather to encourage the sharing of best practise which might best meet Ministers' aims of similar and stable employer rates when a maintained school converts to academy arrangements.**

   We believe that the approach adopted by SYPA in conjunction with advice from our fund actuary is fair and equitable to the Academies and the ceding Authority LEA schools. It is based on the premise that academies are entities which are wholly responsible for their financial affairs and require transparency of pension cost. The policy adopted is transparently communicated through the FSS and other Fund documents and is reviewed on an ongoing basis as per other employers in the Fund. The treatment has never sought to penalise academies by restricting recovery periods or applying other treatments which result in materially different outcomes except to reflect the membership profile of a particular academy. This has also been the treatment in relation to the majority of other new employers such as admission bodies, and we see no strong reason to change this approach. In terms of any policy decision, we should not overlook the other interested parties here such as the local authority and LEA schools which would be affected by any arrangements put in place.

5. Implications and risks

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.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 24

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SOUTH YORKSHIRE
PENSIONS AUTHORITY

Protecting Shareholder Value
-
Corporate Governance & Corporate Social Responsibility

The role of the LAPFF

A presentation by
Keith Bray, Forum Officer
21 November 2013

Local Authority Pension Fund Forum

Corporate Governance
Corporate Social Responsibility
and the LGPS

The aim –

Protecting shareholder value

Corporate Governance (CG)
&
Corporate Social Responsibility (CSR)

"The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies, while shareholders' role in governance is to appoint the directors and auditors and to satisfy themselves that a proper governance structure is in place." **Cadbury (1992)**

"Corporate governance can be defined ***narrowly*** as the relationship of a company with its shareholders ***or more broadly*****,** as its relationship to society" (Financial Times)

This illustrates the link between corporate governance and corporate social responsibility (CSR)

The revised Myners Principles

1. Effective decision making
2. Clear objectives
3. Risks and liabilities
4. Performance assessment
5. **Responsible ownership**
6. Transparency & reporting

(LGPS funds required to comply or explain)

Areas of concern for responsible owners

Environmental, Social & Governance (ESG) issues

- Environmental issues (e.g. Greenhouse gas emission, Mineral exploration, waste disposal)
- Supply chain labour standards – reputational risks
- Boardroom structures
- Directors’ remuneration
- Appointment of and role of auditors
- Accounting standards

CIPFA Guidance

- Authorities may wish to consider seeking alliances with either other pension funds in general or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on ESG issues.

- **For example the LAPFF exists to promote the investment interests of LA funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.**

Boardroom structures

- Separation of Chair of Board from Chief Executive (e.g. M&S)
- Independence of non- executive directors
- Senior independent director
- Recruitment and appointment of directors
- Induction and professional development
  - Institute of Directors – IoD **Chartered Director qualification (supported by LAPFF)**

Directors’ remuneration

- Supportive of appropriate rewards for success
- Opposed to ‘Fat cat’ pay deals rewarding poor performance
- Opposed to excessive rewards which are disproportionate to performance
- Promotion of transparency

Appointment of and role of auditors

- Risk of conflict of interest from other relationships with company
- Ratio of fees for consultancy work and audit fees
- Independence of audit committees

Approaches to shareholder activism

- Leave it to fund managers
- Use a consultant
- Do it yourself
- Collaboration (e.g. by membership of the LAPFF)

Approaches to shareholder activism

- Collaboration improves effectiveness immeasurably
- Engagement with companies preferable to confrontation
- Effectiveness of ‘screening’ (i.e. dis-investing from particular companies) is questionable

LAPFF – What we are about

The Forum:

- Optimises LA pension funds' influence as shareholders to promote Corporate Social Responsibility (CSR) and high standards of Corporate Governance (CG)
- Facilitates commissioning of research and policy analysis of issues relating to areas of concern more effectively than individual members
- Provides a forum for consultation on shareholder initiatives, information exchange and discussion about investment issues
- Provides a forum to consider ***any*** issues of common interest to all pension fund administrators and trustees (e.g. The results of actuarial valuations; the arguments for and against stock lending and the operation of the Freedom of Information Act)

LAPFF – our structure

MEETINGS

- 4 Business Meetings a year, Annual General Meeting
- Each member Fund has one vote at meetings but decisions usually by consensus
- Forum Executive
- Annual Conference

PUBLICATIONS

- Trustee guides, monthly bulletins, quarterly newsletters, quarterly engagement reports & annual report (www.lapfforum.org)

CONTRACTS

- PIRC contracted to supply research, advice and assistance to LAPFF
- Forum Officer - marketing, publicity. (Part-time)

Granted Special Interest Group (SIG) status by Local Government Association (LGA)

LAPFF - Membership

Currently 58 Local Authority pension funds

- 19 English Counties
- 20 London Authorities
- 8 English/ Metropolitan/Unitary Authorities
- The Northern Ireland Fund (NILGOSC)
- 3 Scottish Authorities
- 5 Welsh Authorities
- 2 Passenger Transport Authorities

- £120 billion in value

- **Membership open to all LGPS pension funds**

LAPFF – Members as at 1 November 2013

Aberdeen City Council	LB Enfield	Northamptonshire CC
Avon Pension Fund	LB Greenwich	North East Scotland Pension Fund
Bedfordshire Pension Fund	LB Hackney	North Yorkshire CC
Cheshire Pension Fund	LB Haringey	Nottinghamshire CC
Clwyd Pension Fund	LB Harrow	Rhondda Cynon Taff
Corporation of the City of London	LB Hillingdon	Shropshire County Pension Fund
Cumbria CC	LB Hounslow	Somerset CC
Dyfed Pension Fund	LB Islington	South Yorkshire Pensions Authority
Devon CC	LB Lewisham	South Yorkshire Passenger Transport Pension Fund
Derbyshire CC	LB Newham	Staffordshire Pension Fund
Dorset County Pension Fund	LB Southwark	Surrey CC
East Riding Pension Fund	LB Tower Hamlets	Teeside Pension Fund
Falkirk Council	LB Waltham Forest	Tyne and Wear Pension Fund
Greater Gwent Fund	Lincolnshire CC	Warwickshire Pension Fund
Greater Manchester Pension Fund	Lothian Pension Fund	West Midlands Pension Fund
Gwynedd Pension Fund	London Pension Fund Authority (LPFA)	West Midlands PTA Pension Fund
Lancashire County Fund	Merseyside Pension Fund	West Yorkshire Pension Fund
LB Barking & Dagenham	NILGOSC	Wiltshire CC
LB Camden	Norfolk Pension Fund	Worcestershire CC
LB Croydon		
LB Ealing		

Collaboration is crucial

- NAPF e.g. Disclosure of directors' pensions
- Universities' Superannuation Scheme (USS)
- Institutional Investors Group on Climate Change (IIGCC)
- Collaboration with UKSIF (UK Social Investment Forum) and CIPFA (The Chartered Institute of Public Finance and Accountancy) in producing a template for assessing responsible investment leadership by local government pension schemes
- International collaboration – e.g. with US state pension funds
- **You cannot do it effectively on your own – it's simply a case of 'strength in numbers'**

Some engagement results

YOUR M&S

News Corporation

YOUR M&S

- Following a period of unsuccessful engagement about Sir Stuart Rose’s occupation of the roles of both Chairman and Chief Executive, the LAPFF tabled a resolution at the 2009 M&S AGM requiring the company to bring forward the separation these roles.
- The resolution was supported by 37.7% of M&S shareholders
- Marc Bolland subsequently took over as Chief Executive in May 2010 and Robert Swannell took over as chairman in January 2011

News Corporation

- LAPFF co-filed a resolution at 2012 AGM seeking an independent chair
- The culmination of intensified engagement over the past year
- Meetings held with investors and advisers to build support
- Vote in favour: 30.5%
- Excluding Murdoch votes: 67%

The Department for Communities and Local Government' view (DCLG)

- Supportive of activism and of LAPFF as an organisation

- DCLG officers have been keen supporters of LAPFF for many years

- Brandon Lewis MP (Parliamentary Under Secretary of State for Communities and Local government) will be the keynote speaker at this year's LAPFF conference next month

Benefits of LAPFF membership
Improved effectiveness

- 58 member funds
- Assets of £120 billion
- **Strength in numbers**
- **Improved information flow/intelligence about Corporate governance/CSR issues**
- **More scope for collaboration**
- **Co-ordination of campaigns**

Benefits of LAPFF membership
Value for money

- Research costs spread over 58 Forum member funds
- Saves officer time and cost in researching issues
- Forum for discussion of **any** related local government pension fund issues.
- Excellent opportunities for networking with colleagues from all parts of UK and all types of authority (networking initiative)
- Two free places at LAPFF annual conference

Where are we now?

- Beginning to make a difference
- Public support is growing
- Cross party political support
- Constant media interest
- Much more to do

The future?

- More collaboration - more effectiveness

Future Developments at LAPFF - Increasing membership and greater influence

- Membership more than doubled (increased by 140%) since 2003
- Growth in membership expected to continue
- Growing influence with other institutional investor groups and with Central Government
- Higher profile and greater influence with corporate sector (investee companies)

Robert Swannell - Chairman of M&S, and Professor John Kay – author of the Kay Review spoke at 2012 LAPFF Conference

Summing Up

- The LAPFF provides:-

  a customised, cost-effective vehicle for LA pension funds to improve both their effectiveness as responsible investors and their compliance with

  Myners Principle 5 – responsible ownership

Protecting shareholder value
Acting together - achieving more

SOUTH YORKSHIRE
PENSIONS AUTHORITY

Local Authority
Pension Fund
Forum

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