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SOUTH YORKSHIRE
PENSIONS AUTHORITY

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Financial Conduct Authority

Diana Terris
Clerk

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 South Yorkshire Pensions Authority, 18 Regent Street, Barnsley on Thursday 16 March 2017 at 10.00 am for the purpose of transacting the business set out in the agenda.

Diana Terris

Diana Terris
Clerk

This matter is being dealt with by: Gill Richards Tel: 01226 772806
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Distribution

Councillors E Butler, B Curran, S Ellis, H Mirfin-Boukouris, J McHale, A Sangar, M Stowe, Z Sykes, P Wood, J Wood, R Wraith and K Wyatt

Contact Details

For further information please contact:

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SOUTH YORKSHIRE PENSIONS AUTHORITY

16 MARCH 2017 AT 10.00 AM AT THE OFFICES OF SOUTH YORKSHIRE PENSIONS AUTHORITY, 18 REGENT STREET, BARNSLEY, S70 2HG

Agenda: Reports attached unless stated otherwise

	Item	**Page**
1	Apologies	
2	Announcements	
3	Urgent Items To determine whether there are any additional items of business which by reason of special circumstances the Chair is of the opinion should be considered at the meeting; the reason(s) for such urgency to be stated.	
4	Items to be considered in the absence of the public and press. To identify items where resolutions may be moved to exclude the public and press. (For items marked * the public and press may be excluded from the meeting).	
5	Declarations of Interest.	
6	Minutes of the Authority meeting held on 12 January 2017	1 - 6
7	Minutes of the Extraordinary meeting held on 16 February 2017	7 - 10
8	Work Programme	11 - 12
9	Section 41 Feedback from District Councils	Verbal Report
10	Update on matters that have arisen since the last meeting	Verbal Report
11	2016 Triennial Valuation Update	13 - 14

SOUTH YORKSHIRE PENSIONS AUTHORITY

12 JANUARY 2017

PRESENT: Councillor S Ellis (Chair)
Councillor M Stowe (Vice-Chair)
Councillors: H Mirfin-Boukouris, A Sangar, Z Sykes, J Wood, R Wraith and K Wyatt

Trade Unions: N Doolan-Hamer (Unison), G Warwick (GMB) and F Tyas (UCATT)

Officers: S Barrett (Interim Fund Director), G Chapman (Head of Pensions Administration), B Clarkson (Head of Finance), A Frosdick (Monitoring Officer), F Foster (Treasurer), M McCarthy (Deputy Clerk), M McCoole (Senior Democratic Services Officer) and N Copley (Finance Service Director)

Apologies for absence were received from Councillor E Butler, Councillor J McHale, Councillor M Iqbal and Councillor P Wood

1 APOLOGIES

Apologies for absence were noted as above.

2 ANNOUNCEMENTS

Councillor Ellis informed Members that Maureen Oades, the former solicitor to the South Yorkshire Joint Authorities, had recently died having contracted Meningitis. Councillor Ellis wished to send condolences on behalf of the Authority to her friends and family at this sad time.

Councillor Wraith commented that he had known Maureen Oades for a long time, she had been an excellent officer and she had provided very good support to the Authority Members and at other places.

3 URGENT ITEMS

None.

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

Councillor Ellis requested that Item 11 ‘Government Consultation on LGPS Pooling’ would be taken in both the public and private sections of the meeting to provide Members with a steer on forthcoming discussions.

Members’ attention was drawn to the potential for a special meeting to be held on 16 February (following the Corporate Planning and Governance Board), to enable decisions to be made on formal pooling matters.

5 DECLARATIONS OF INTEREST

None.

6 MINUTES OF THE AUTHORITY MEETING HELD ON 24 NOVEMBER 2016

Councillor Sykes requested that the minutes be amended to reflect her apologies for absence.

RESOLVED – That the minutes of the Authority meeting held on 24 November 2016 be signed by the Chair as a correct record.

7 MINUTES OF THE CORPORATE PLANNING AND GOVERNANCE BOARD HELD ON 20 OCTOBER 2016

Councillor Wraith referred to the review of pensions administration. He queried the slight downturn in priority performance and how the Fund's members living overseas received their benefits.

G Chapman commented that there had been a slight downturn in priority performance during the period, as attention had been focused upon the completion of the annual returns. Members living overseas received their benefits via the Western Union into their foreign bank accounts or direct into bank accounts in the UK. Western Union was also involved in partnership with the Fund to trial the new existence process for pensioners living in the West Indies. It was the intention to roll the process out to the Fund's pensioners across the world in due course.

RESOLVED – That the minutes of the Corporate Planning and Governance Board held on 20 October 2016 be noted.

8 UPDATE ON MATTERS ARISING SINCE THE LAST MEETING

Councillor Ellis commented that all matters arising since the last meeting were covered on today's agenda.

9 WORK PROGRAMME

The Board considered its Work Programme to 8 June 2017 to provide Members with an early indication of the issues to be discussed at future meetings, together with any additional issues that Members wished to be covered in the agenda.

(Members had already noted a possible special meeting at the conclusion of the Corporate Planning and Governance Board on 16 February).

RESOLVED – That the Work Programme be noted.

10 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

Councillor Ellis commented that the district councils continued to observe the pooling developments; an update would be provided to the Leaders Meeting on 20 January.

11 REVENUE ESTIMATES 2017/18

A report of the Treasurer was submitted to formally confirm the draft budget proposals for the 2017/18 financial year that was considered by the Authority on 24 November 2016. Consultations on the key elements of those proposals had been undertaken with various interested parties and no changes had been suggested.

S Barrett thanked F Foster and other colleagues for the work undertaken and contributing to effective dialogue with our major customers.

Councillor Wraith thanked F Foster for all of her work provided to Members, and to himself in his former capacity of Vice Chairman to the Authority. He wished her well in her impending retirement.

RESOLVED – That the Authority formally confirmed the budget proposals and approved the budget of £7,042,600 for 2017/18.

12 SCHEME MEMBERS' ANNUAL FUND MEETING

A report of the Communications Manager was presented to report on the Scheme Members' Annual Fund Meeting held on 20 October 2016 at The Holiday Inn Barnsley. A total of 62 members had attended the meeting consisting of:-

- Pensioners – 47 (including 1 LPB member)
- Contributors – 9 (including 1 LPB member)
- Deferred members - 2
- Councillors – 3 (excluding Chair & Vice)
- Employer Representative - 1

Councillor Wyatt commented that he had attended the meeting which had been a successful event. He had been impressed with the amount of Fund members in attendance which had provided for a good natured discussion at a pleasing venue.

Councillor Wraith commented that The Holiday Inn, Barnsley had been a first class venue for the meeting in comparison to a previous meeting held at The Civic, Barnsley.

Councillor Sangar suggested that a venue with equal standards to The Holiday Inn should be sought for the next Annual Fund Meeting to be held in Sheffield in 2017. He highlighted that this had been the first Annual Fund Meeting following the retirement of J Hattersley. A number of questions had been asked by Fund members to which the Chair, Vice Chair and officers had provided good answers.

Councillor Ellis commented that the meeting had ran very smoothly, and she thanked the officers involved for all of the preparatory work undertaken.

Members noted that a full recording of the meeting was available to view at: http://www.youtube.com/user/SYPensions

Councillor Ellis thanked Members, on behalf of the Vice Chair and herself, for their attendance at the meeting.

Members would be notified of the date and location of the next Annual Fund Meeting in due course.

RESOLVED – That Members noted the contents of the report.

13 COMPLIANCE WITH THE PRINCIPLES FOR INVESTMENT GOVERNANCE: SELF-ASSESSMENT

A report of the Clerk was submitted to update Members on the CIPFA Code of Practice on public sector pensions finance knowledge and skills and the requirements for the self-assessment against the Principles for Investment Governance (formerly Myners' Principles).

In October 2011, Members had adopted a system of self-assessment and had agreed to use a template to gauge compliance. Upon Members' confirmation to the self-assessment process, assessment forms would be despatched to Members, to be completed and returned before the end of March 2017.

RESOLVED – That:-

i) The Authority noted the content of the report.

ii) Members confirmed their commitment to the self-assessment process until the new Regulations for the Scheme come in to place and to review and update the process at this time.

iii) Members agreed to any development needs arising from the results.

14 GOVERNMENT CONSULTATION ON LGPS POOLING

Councillor Ellis referred to a recent short meeting with Marcus Jones, Minister for Local Government, together with representatives from the Border to Coast Pool.

The Government had indicated that they were pleased with how the Pool was progressing, and that it was one of the leading pools. The Government had not relented on the tight timescales which had been slipped by Government officers. The Government had referred to achievement of aspirations including increased infrastructure investment. The Pool had been very clear in highlighting its fiduciary duties first and foremost. The Government had not yet determined whether there would be one national vehicle to undertake infrastructure investment.

S Barrett referred to the Pool's work streams which were ongoing with both an officer operation group and member steering group. The member steering group would next meet on 31 January. Members would be provided with a report to either a Special Authority Meeting on 16 February or at the Authority Meeting on 16 March. This would address the formal approval to Pooling through multi-partner agreements in order to progress towards an operational 'go-live' on 1 April 2018, or as soon as practicable thereafter.

A Frosdick referred to the intention to put together a common pack of presentation slides to present the key principles around governance. He commented that this was a very complicated legal transaction in terms of the investment vehicle being established. He was comfortable in the way that officers and external lawyers that the Authority was engaging with were dealing with matters both properly and effectively.

G Warwick queried whether a position had been reached on the role of trades unions and boards in the pools.

Councillor Ellis commented that it was likely that trades unions would not be included onto the Board. However work was ongoing to determine how trade unions could be involved without giving them membership of the Board or full voting rights. It was anticipated that voting rights would remain with each of the authorities.

G Warwick commented that he understood the Government had given discretion to individual pensions authorities as to whether to involve trades unions. He understood this was consistent with the principle of a scrutiny and monitoring role. He suggested that trades unions and board members should be involved in some type of forum.

Councillor Wraith welcomed G Warwick's suggestion. He added that the Authority had always had an excellent working relationship with the trades unions and representatives, to which he did not want the liaison to fade away.

Councillor Stowe suggested that briefing papers from the trades unions should be provided to the Pool whilst those discussions were taking place to highlight the importance of trade unions.

RESOLVED – That Members noted the update.

15 EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED – That under Section 100(A) 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.

16 GOVERNMENT CONSULTATION ON LGPS POOLING

Members were provided with a verbal update on discussions taking place within the Border to Coast Pool relating to elements of the draft terms and conditions of service for the senior executives to be employed by this body.

RESOLVED – That Members noted the update.

CHAIR

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SOUTH YORKSHIRE PENSIONS AUTHORITY

16 FEBRUARY 2017

PRESENT: Councillor S Ellis (Chair)
Councillor M Stowe (Vice-Chair)
Councillors: J McHale, H Mirfin-Boukouris, P Wood and R Wraith

Trade Unions: N Doolan-Hamer (Unison), G Warwick (GMB) and F Tyas (UCATT)

Officers: S Barrett (Interim Fund Director), G Chapman (Head of Pensions Administration), A Frosdick (Monitoring Officer), F Foster (Treasurer) and G Richards (Democratic Services Officer)

Observers: G Boyington and S Ross

Apologies for absence were received from Councillor E Butler, Councillor B Curran, Councillor A Sangar and M McCarthy

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 DECLARATIONS OF INTEREST.

None.

3 LOCAL GOVERNMENT PENSION SCHEME: REQUIREMENTS FOR ASSET POOLING

S Barrett gave a presentation to inform the Authority of the current position with regard to agreeing to join the Border to Coast Pension Partnership.

The Authority then considered a report to seek authority for the South Yorkshire Pensions Authority to pool its LGPS assets with 11 other Funds in a newly created, wholly owned, local government regulated asset management company – Border to Coast Pension Partnership Ltd as its chosen means of achieving regulatory compliance.

The report contained the following recommendations:

That the Authority meets the regulatory requirements to pool Pension fund assets by:

1. Agreeing to be a member of the Border to Coast Pensions Partnership (BCPP) and to adopt its arrangements, by authorising the Clerk and the S151 officer in consultation with the Interim Fund Director to finalise the approval and

execution, where required, of all legal documents necessary to give effect to the decision below:

i. entering into the Inter-Authority Agreement between the Authority and the administering authorities of the other Pool funds

ii. entering into the Shareholders' Agreement between the Authority and the administering authorities of the other Pool funds and Border to Coast Pensions Partnership Limited

iii. agreeing the Articles of Association to be adopted by the Border to Coast Pensions Partnership Ltd.

2. Approving the establishment of the Border to Coast Pensions Partnership Joint Committee as a formal Joint Committee under section 102 of the Local Government Act 1972 in accordance with and to carry out the functions as set out in the Inter-Authority Agreement.

3. Approving the subscription by the South Yorkshire Pension Fund of one Class A voting share in the asset management company, Border to Coast Pensions Partnership Limited.

4. Appointing the Chair of the Authority as the shareholder for BCPP Ltd.
5. Approving the subscription by the South Yorkshire Pension Fund for such number of Calls B non-voting shares in the Border to Coats Pensions Partnership Limited as shall be necessary to ensure that the Authority contributes by way of equity one twelfth of the minimum regulatory capital requirements of the Financial Conduct Authority.

6. Appointing the Chair to represent the Authority on behalf of the Fund at the Border to Coast Pensions Partnership Joint committee meetings.

7. Authorising the Clerk to make the consequential changes required to the Constitution to reflect these new arrangements.

The Authority discussed the report in detail highlighting issues around 'one share, one vote' and infrastructure investment. Members expressed concern that he report did not contain any information on the role of Trade Union representatives or Local Pension Boards in the new structure.

After a lengthy discussion on the matter, Cllr P Wood proposed an amendment that the decision on the recommendations within the report be deferred to allow the Chair to contact the Chairs of the other Authorities proposing to join the pool to ascertain their position on Trade Union representation in the pool governance structure.

The amendment was seconded by Cllr R Wraith.

After further discussion around Trade Union representation and how they could be involved in governance arrangements the amendment was carried.

It was noted that the Chair would contact the other Chairs by email or telephone.

A report would be brought for a decision at the next Authority meeting on 16 March 2017.

CHAIR

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South Yorkshire Pensions Authority – cycle of future meetings

Authority Meetings

Agendas	16 February 2017 Special meeting Pooling	16 March 2017	8 June 2017 AGM	8 June 2017 Ordinary Meeting
Strategic Overview of Business	Verbal update on matters arising since last meeting	Verbal update on matters arising since last meeting		Verbal update on matters arising since last meeting
	S41 Feedback	S41 Feedback		S41 Feedback
Board Scrutiny		Call-Ins		Call-Ins
Review of Strategies		Actuarial Valuation 2016		
	Government Consultation on LGPS Pooling	Funding Strategy Statement		Government Consultation on LGPS Pooling
		Government Consultation on LGPS Pooling		Qtr 4 Performance Snapshot Report
		Treasury Management Strategy Statement		
Business		Appointment of Section 151 Officer	Appointment of Chair	Loyal Service Awards
		Change to Authority Membership	Appointment of Vice-Chair	Members Self-Assessment Report
		Meeting Dates of Authority and Boards	Membership of the Authority	
		LGPS Current Issues	Appointment of Boards, Committee and Chairs	

6.2.17

	16 February 2017	16 March 2017	8 June 2017 AGM	8 June 2017 Ordinary Meeting
			Questions in meetings of District Councils	
Training & Development				

SOUTH YORKSHIRE PENSIONS AUTHORITY

16th March 2017

2016 Triennial Valuation Update

1. Purpose of the Report

To advise Members of the final outcome of the 2016 Triennial Valuation exercise.

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2. Recommendations

Members are recommended to note the contents of the report

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3. Information

3.1 At the October meeting, Members received a presentation from the actuary which updated the results for the 2016 valuation exercise. In summary, his assessment revealed a notional deficit of £1,083M representing a funding level of 85% (an improvement of 9% from the last valuation) and an average employer's future accrual contribution rate of 14.8% (an average increase of 2% from the last valuation).

3.2 Following discussions with the actuary Members agreed the actuarial assumptions to be used and were made aware that provisional results had been issued to the employers. Members agreed that the deficit would be recovered over the next 19 years. The Funding Strategy Statement has been revised and is submitted for final approval elsewhere on today's agenda.

3.3 The actuary has now completed his calculations and is in the process of preparing the final report including bespoke employer contribution rates and deficit/surplus adjustments which have been set to reflect their individual circumstances. The overall final result is unchanged from that previously notified although some individual employer results have been amended slightly.

3.5 A copy of the valuation report will be issued to all Members when it becomes available and will be forwarded to the Secretary of State as required by the pension regulations.

4. Implications

There are no financial, legal, diversity or risk implications other than those noted above.

Gary Chapman
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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

16th March 2017

Revised Funding Strategy Statement

1. Purpose of the Report

To seek confirmation of changes to the funding strategy statement.

2. Recommendations

Members are recommended to confirm the changes.

3. Information

3.1 The pension regulations require the authority to prepare, maintain and publish a written statement setting out their funding strategy. In doing so, regard must be had to the guidance published by CIPFA and its own Investment Strategy Statement (ISS). It must be revised in accordance with any change in policy on the matters set out in the statement and any material change to the ISS. In particular, it must be revised so that the actuary can take account of it when preparing his report on the triennial valuation.

3.2 At the October meeting, Members received a presentation from the Fund Actuary, considered the preliminary whole-fund valuation results and the funding plan for the next three years. The results were based on a continuation of the plan agreed at the last valuation to return the Fund to full solvency by 2036.

3.3 Before adopting a revised funding strategy the regulations require the Authority to consult with interested parties. Employers were issued with a copy of the revised funding strategy along with their preliminary results and were invited to comment on the following,

- aspects relating to the actuarial assumptions adopted (including the short-term pay restraint assumption of 1.25% p.a. for 4 years);
- the proposed approach in relation to periods over which deficit is recovered and any surplus is spread;
- potential contribution phasing plans to the new requirements over 3 years , where applicable;
- whether there were any post valuation date events applicable to each organisation that the actuary should be made aware of when setting the final contribution rates ;
- potential pooling arrangements for academies under the control of the same Multi-Academy Trust where applicable.

3.4 The initial letter to employers invited comments by 13th January and of the few that responded with comments the overwhelming majority were in support of the revised strategy. There were a few changes made to better describe issues that had caused some confusion with employers together with specific adjustments emerging from the consultation in particular around termination assessments, and also recovery periods. A tracked changes version of the FSS is attached to enable comparison between the draft and final statement.

3.5 Formal agreement of the revised funding strategy statement allows the actuary to complete the triennial valuation and issue revised employer contribution rates by the 31st March deadline.

4. Implications and risks

- Financial – none

- Legal – the actuarial valuation report must be signed off by 31st March. Confirmation of the funding strategy will enable the actuary to complete the triennial valuation and issue revised employer contribution rates by the deadline.

- Diversity – none

- Risk – The key revisions to the funding strategy statement are designed to stabilise contribution requirements for employers at a time when affordability is an issue for them. The risk in taking this approach is that employers may find themselves in a worse position if the assumptions made are not borne out at the next valuation.

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

~~DRAFT~~

FUNDING STRATEGY STATEMENT

SOUTH YORKSHIRE PENSION FUND

~~NOVEMBER 2016~~MARCH 2017

South Yorkshire Pensions Authority

This Funding Strategy Statement has been prepared by South Yorkshire Pensions Authority~~South Yorkshire Pensions Authority~~ (the Administering Authority) to set out the funding strategy for the South Yorkshire Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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EXECUTIVE SUMMARY

It is the fiduciary responsibility of the Administering Authority (South Yorkshire Pensions Authority) to ensure that the South Yorkshire Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long term. The Funding Strategy adopted by the South Yorkshire Pension Fund will therefore be critical in achieving this statutory duty.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the South Yorkshire Pension Fund~~South Yorkshire Pension Fund~~.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

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Given this, and in accordance with governing legislation, all interested parties connected with the South Yorkshire Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND'S OBJECTIVE

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the overall assumptions used, will be sufficiently prudent for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members' accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is [86%] at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. A key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period) and where appropriate consider affordability of contributions. Full details are set out in this FSS.

The average recovery period for the Fund as a whole is 19 years at this valuation which is 3 years shorter than the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce by 3 years at this valuation.

Where there is an increase in contributions required at this valuation the employer may be able to step-up their contributions over a period of 3 years. In certain circumstances, an alternative payment pattern may be agreed with the Administering Authority.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. included in the "Secondary" rate) are set out in an Appendix to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities and solvency level is 2.0% per annum and for determining the future service ("Primary") contribution rates is 2.75% per annum.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund. In addition, the asset share maybe restated for changes in data or other policies.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the ~~relevant~~ A~~a~~ppendix E to this statement.

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2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in **Appendix C**. Examples of new employers include:

- Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. New academy conversions and multi-academy trusts

Current Fund policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's share of the historic local authority deficit prior to its conversion. This deficit is calculated as the capitalised deficit funding contributions (based on the local authority deficit recovery period) the school would have made to the Fund had it not converted to academy status, subject to a minimum asset share of nil.

In cases where numerous academies which participate in the Fund are in the same Multi-Academy Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply. Notwithstanding this, the Fund will continue to track the constituent academies separately on an approximate basis, in the interests of transparency and clarity around entry and exit of individual academies to the Trust in future.

The full policy is shown in **Appendix D**.

4. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a "minimum risk" basis of assessment should apply e.g. one which would assess the liabilities on termination using a discount rate linked to gilt yields and a more prudent longevity assumption. Any exit payments due should be paid immediately although variants to this may be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

5. Insurance arrangements

For certain employers, the Fund currently insures ill health retirement costs via an internal captive insurance arrangement which pools these risks for eligible employers. The captive arrangement will be operated as per the objectives set out in **Appendix F**.

CONTENTS

APPENDICES

1
INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the South Yorkshire Pension Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Scheme published under Regulation ~~12~~ 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the South Yorkshire Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the South Yorkshire Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

The Secondary rate is specified in the rates and adjustments certificate.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

2
PURPOSE OF FSS IN POLICY TERMS

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

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

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

3
AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designating and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4
RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- Undertake administration duties in accordance with the Pension Administration Strategy.
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, additional pension contracts, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long term cost efficiency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5
SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency" of the Scheme so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for deficit contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.

- Subject to consideration of affordability, for scheduled and resolution bodies, and those admission bodies (not operating outsourced services) backed by a scheduled body guarantee, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation (subject to a maximum of 19 years). This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). These principles have resulted in an average recovery period of 19 years being adopted across all Fund employers.

- Those admission bodies operating outsourced services under a contract which expires within the maximum 19 year recovery period, the recovery period to apply will be limited to the lifetime of the contract unless the body is in surplus (see comment below).

- Due to their weaker covenant, admission bodies not backed by a scheduled body guarantee will be subject to the same conditions as above but subject to a maximum recovery period of 14 years unless their defined (or expected) lifespan within the Fund is limited. Such known ((or expected) events that could impact on their participation in the Fund should be notified to the administering authority by the body as soon as practically possible.

- Individual employer contributions will be expressed and certified as two separate elements:
  - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits
  - the **Secondary rate**: a schedule of lump sum monetary amounts and/or % of pay amendment over 2017/20 in respect of an employer's surplus or deficit (including phasing adjustments)

- For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.

- Where an employer is in a surplus position, the Secondary rate deduction from the Primary rate will be adjusted to such an extent that any surplus is used (i.e. run off) over ~~a~~ the maximum 19 year period unless agreed otherwise with the administering authority. Such deductions will be subject to a minimum threshold of £100 p.a., below which no deduction will be made. The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

- Where increases in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, the increase from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years. Any step up in Primary rates will be implemented in steps of at least [0.5]% of pensionable pay per annum. It may be possible to have a different phasing pattern in certain circumstances subject to the agreement of the administering authority. The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

- For those employers who are eligible for the ill-health captive arrangement, the contributions payable over the period 1 April 2017 to 31 March 2020 will be adjusted accordingly to reflect the premium charged to provide continued protection against the risks of excessive ill-health retirement costs emerging. Further details are provided in Appendix F of these adjustments.

- For certain employers, subject to the agreement of the administering authority, the option to prepay Primary rate contributions may be made available. This option would be on the ~~provisio~~proviso that a “top-up” payment would be made by the employer prior to the end of the prepayment period in order to ensure that no underpayment emerges versus the minimum required by the valuation certificate.

- On the cessation of an employer’s participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. The termination policy is summarised set out in Appendix C

In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

All Employers are required to meet non ill-health early retirement strain costs arising on the grounds of redundancy / efficiency by immediate capital payments into the Fund, or subject to agreement with the administering authority, over a period of up to 3 years.

With regard to voluntary early retirements, the treatment depends on the type of employer:

- For those employers who participate in the ill-health captive, any strain costs emerging will need to be met by immediate capital payments into the Fund, (or over an alternative period subject to the agreement of the administering authority).

- For those employers who don't participate in the captive, the "primary rate" payable over 2017/20 ~~may~~ includes an allowance for such costs (alongside ill-health retirement costs). This allowance will be set out in the Actuary's formal valuation report and may be zero depending on the employer's profile. Where voluntary early retirement costs exceed an employer's allowance over the inter-valuation period (~~or should an employer not have an allowance within their "primary rate")~~, the excess costs will become payable immediately (or over an alternative period subject to the agreement of the administering authority).

FUNDING FOR ILL HEALTH RETIREMENT COSTS

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment. The treatment of any ill-health retirement strain cost emerging will vary depending on the type of employer:

- For those employers who participate in the ill-health insurance captive, any ill-health retirement strain cost emerging will be met by a contribution from the captive fund as part of the subsequent actuarial valuation (or termination assessment if sooner). No additional contributions will be due immediately from the employer although an adjustment to the "premium" payable may emerge following the subsequent actuarial valuation, depending on the overall experience of the captive fund.

- For those employers who don't participate in the ill-health captive, the "primary rate" payable over 2017/20 ~~may~~ includes an allowance for ill-health retirement costs (alongside those for voluntary early retirements). This allowance will be set out in the Actuary's formal valuation report and may be zero depending on the employer's profile. Where ill-health retirement strain costs exceed an employer's allowance over the inter-valuation period ~~(or should an employer not have an allowance within their "primary rate")~~, the excess strain costs will become payable immediately (or over an alternative period subject to the agreement of the administering authority).

FUNDING FOR DEATHS IN SERVICE

The financial impact of the benefits that become payable on the death of a member differ depending on whether the member dies before or after retirement.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

In the event of a member dying whilst in active service, it is not certain that a funding profit would emerge. Whilst the Fund would no longer have to pay the accrued benefits at retirement for the deceased member, a lump sum death grant and also dependants' benefits would become payable instead. The dependants' benefits would also be based on the pensionable service that the member could have accrued had they remained in service until retirement.

Typically, the death of a young member with low pensionable service and dependants is likely to result in a large funding strain for the employer. However, the death of an older/long serving member with no dependants could actually result in a funding profit. Any funding strain or profit will emerge at the next actuarial valuation through increased/reduced deficit, except where the employer is termination when it will be taken into account when the Actuary determines the termination debt.

7

LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be ~~[~~86~~]~~% covered by the current assets, with the funding deficit of ~~[~~24~~]~~% being covered by future deficit contributions.

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

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked gilts, fixed interest gilts and possible investment derivative contracts known as "swaps".

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 59~~[tbc]~~%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The proposed strategic benchmark to apply from 1 April 2017, as set out in the Fund's Investment Strategy Statement ~~current~~ ~~investment strategy~~ 16 is:

For the 2016 valuation, t~~T~~he investment ~~strategy and~~ return expectations ~~set out~~based on the ~~above asset classes ahown~~as calculated by the Actuary equated to an overall best estimate average expected return of ~~[~~3.4~~]~~% per annum in excess of CPI inflation over a 20 year time horizon as at 31 March 2016. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations and this is expected under the Regulations and guidance.

RISK MANAGEMENT STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority may consider implementing a risk management framework with the overall aims of reducing risk and providing more stability/certainty of outcomes for funding and ultimately employer contribution rates. The details of any such framework implemented would be appended to the next update of this~~is~~ document once established.

8

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

~~The information below illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation.~~

~~**[TBC]**~~

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored. In addition the implementation of a risk management framework to manage the key financial risks will help reduce risk over time.

DEMOGRAPHIC

The demographic risks are as follows:-

- Future improvements in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs (aside from ill-health retirement costs which are already insured for eligible employers) being insured with a third party or internally within the Fund. More detail on how the Fund currently insures ill health costs for eligible employers is set out in **Appendix F**.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments and placed a copy on the Fund's website. The first draft was approved at the Committee's meeting on [6 October 2016~~tbc~~] and finalised at the meeting on~~on~~ 16 March 2017~~[tbc]~~ after the Fund received feedback from the employing bodies.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Political risk that the academies guarantee from the Department for Education is removed, especially given the large increase in the number of academies in the Fund.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. with regular data reconciliations with employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.

PENSIONS COMMITTEE

South Yorkshire Pensions Authority, as the Administering Authority for South Yorkshire Pension Fund, has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee.

Full details of the business of the authority including the meeting dates of the various Boards, minutes and agenda's, the contact details of the current Members and links to live webcasting of meeting can be found at http://www.southyorks.gov.uk/webcomponents/jsec.aspx

PENSIONS ADMINISTRATION STRATEGY

The Pensions Administration Strategy (PAS) sets out clear standards of service to members by defining employer and Fund responsibilities in administering the Scheme and sets out the requirements for the two way flow of information. The employer should notify the administering authority of the following events.

- Structural change in employer's membership e.g. large fall in employee numbers or large number of retirements.
- A closure in accessibility of the scheme to new entrants.
- An employer ceasing to exist.

The strategy has been developed and adopted in consultation and agreement with the participating Fund Employers and is provided for through statute by Regulation 59 of the Local Government Pension Scheme Regulations 2013 (as amended). It sets out, amongst other things, how the Administering Authority, SYPA, will administer the Pension Scheme and Fund on behalf of Employing Organisations, and their Scheme Members, participating in the South Yorkshire Pension Fund, its requirements for employers in terms of the timely and accurate provision of information pertinent to the administration of the Scheme and Fund, and the penalties to be applied to those employing organisations failing to meet their duties, responsibilities and obligations as detailed within the strategy document.

The strategy has been developed and adopted in consultation to improve the overall standard of administration of the Scheme and the Fund and is intended to apply in a spirit of partnership working and co-operation where every assistance, tool, facility, system, training and guidance will be provided where possible to enable employers to improve administrative performance and meet the requirements of the strategy. Any penalties and censures carried within the strategy are not intended to apply as a first resort but rather as a last resort following a period of time and opportunity given for improvement to any organisation struggling to meet its obligations.

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LOCAL PENSION BOARD

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

The Secretary of State granted the two South Yorkshire LGPS Ffunds permission to establish a Joint Local Pension Board. The role of the Local Pension Board is defined by Sections 5(1) and (2) of the Public Service Pensions Act 2013.

The Board seeks to assist the South Yorkshire Pensions Authority and the South Yorkshire Passenger Transport Pension Fund to maintain effective and efficient administration and governance. Members of the Scheme can now have direct influence on how the Fund is managed. The LPB comprises both Scheme members, retired and active, together with employer representatives. Employer representation is not restricted to the four large local Councils.

Although the Board only held its first meeting on 23 July 2015 it is already contributing towards the effective governance of the two Funds. It meets quarterly and all Board Members have undertaken training and have established a work programme that will enable them to meet their obligations to ensure that the two Funds comply with the relevant codes of practice and current legislation.

The draft Board constitution was suggested by the two administering authorities but since then changes have been agreed which remove what some regarded as unnecessary restrictions on the scope of the LPB's ability to question and offer advice on investments. This demonstrates that, whilst not having direct control over the two Funds, the LPB intends to work with the Funds on the widest possible range of issues.

9

MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

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

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

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

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.0% per annum above CPI inflation i.e. a real return of 2.0% per annum i.e. a total discount rate of 4.2% per annum. This real return will be reviewed from time, to time, typically at the time of a formal valuation or bond review based on the investment strategy, market outlook and the Fund's overall risk metrics

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index.

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for ~~some~~ employers ~~as budgeted in their financial plan~~ Depending on the circumstances of the employer, the variants on short term pay that have been applied are either allowances of 1.25% or 1.75% per annum for each year from the valuation date up to 31 March 2020. The allowance made has been notified to each employer separately on their individual results schedule.~~as agreed with the administering authority. For example, for public sector employers this typically results in a minimum total salary increase of [1.25%] per annum to 2019/20 in line with Government policy (unless agreed with the administering authority).~~

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity ‘improvement’ year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum for males and females.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 10% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) ~~are not specifically linked to investment conditions as at the valuation date itself, and~~ are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund. In addition, the asset share maybe restated for changes in data or other policies.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.2% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.2% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases*	3.45% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases*	3.45% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

* in addition to this, an allowance for further short-term pay restraint may be made. This will be ~~a minimum of 1~~either be 1.25% p.a. or 1.75% p.a. for 4 years to 2019/20 depending on an employer's circumstances.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

-Post retirement mortality tables

Current Status	Retirement Type	2013 study	2016 study
Annuitant	Normal Health	99% S1PMA_CMI_2012[1.5%] / 96% S1PFA_CMI_2012[1.5%]	96% S2PMA_CMI_2015[1.5%] / 88% S2PFA_CMI_2015[1.5%]
	Dependant	162% S1PMA_CMI_2012[1.5%] / 113% S1DFA_CMI_2012[1.5%]	122% S2PMA_CMI_2015[1.5%] / 104% S2DFA_CMI_2015[1.5%]
	Ill Health	99% S1PMA_CMI_2012[1.5%] + 3 yrs / 96% S1PFA_CMI_2012[1.5%] + 3 yrs	96% S2PMA_CMI_2015[1.5%] + 3 yrs / 88% S2PFA_CMI_2015[1.5%] + 3 yrs
Active	Normal Health	98% S1PMA_CMI_2012[1.5%] / 91% S1PFA_CMI_2012[1.5%]	96% S2PMA_CMI_2015[1.5%] / 88% S2PFA_CMI_2015[1.5%]
	Ill Health	98% S1PMA_CMI_2012[1.5%] + 4 yrs / 91% S1PFA_CMI_2012[1.5%] + 4 yrs	96% S2PMA_CMI_2015[1.5%] + 4 yrs / 88% S2PFA_CMI_2015[1.5%] + 4 yrs
Deferred	All	121% S1PMA_CMI_2012[1.5%] / 106% S1PFA_CMI_2012[1.5%]	96% S2PMA_CMI_2015[1.5%] / 88% S2PFA_CMI_2015[1.5%]
Future Dependant	Dependant	108% S1PMA_CMI_2012[1.5%] / 102% S1DFA_CMI_2012[1.5%]	119% S2PMA_CMI_2015[1.5%] / 114% S2DFA_CMI_2015[1.5%]

-Life expectancies at age 65

	Male Life Expectancy at 65	Female Life Expectancy at 65
Membership Category	~~**Proposed Assumption**~~	~~**Proposed Assumption**~~
Pensioners	22.8	25.6
Actives aged 45 now	25.0	27.9
Deferreds aged 45 now	25.0	27.9

Other demographic assumptions are set out in the Actuary's formal report.

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and will increase at 2.2% p.a. (unless agreed with the A~~a~~dministering A~~a~~uthority). It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The principles used to determine~~ation of~~ the recovery periods is summarised in the table below. These will be used to derive the minimum contributions payable subject to reasonable affordability and covenant assessment. In some cases, the actuary may recommend a higher deficit contribution for 2017/20.

Category	Maximum Deficit Recovery Period	Derivation
District Councils	~~[~~19~~]~~ years	Determined by reducing the period from the preceding valuation by at least ~~[~~3~~]~~ years
Other Tax-raising Scheduled and Designating Bodies	~~[~~19~~]~~ years	Determined by reducing the period from the preceding valuation by at least ~~[~~3~~]~~ years and to ensure, where appropriate, deficit contributions do not reduce versus ~~those expected~~the current contributions from the existing recovery plan.
Academies and Multi-Academy Trusts	~~[~~19~~]~~ years	Determined by reducing the period from the preceding valuation by at least ~~[~~3~~]~~ years and to ensure, where appropriate, deficit contributions do not reduce versus ~~those expected~~the current contributions from the existing recovery plan.
Higher and Further Education Bodies (Universities and Colleges)	~~[~~19~~]~~ years	Determined by reducing the period from the preceding valuation by at least ~~[~~3~~]~~ years and to ensure, where appropriate, deficit contributions do not reduce versus ~~those expected~~the current contributions from the existing recovery plan.
Community Admission Bodies (guaranteed by another Scheme Employer within the Fund)	~~[~~19~~]~~ years	Determined by reducing the period from the preceding valuation by at least ~~[~~3~~]~~ years and to ensure, where appropriate deficit contributions do not reduce versus the current contributions ~~those expected~~ from the existing recovery plan.

Community Admission Bodies (with no guarantee),	~~[~~14~~]~~ years	Determined by reducing the period from the preceding valuation by at least ~~[~~3~~]~~ years (unless the expected participation in the Fund is known and is shorter) and to ensure, where appropriate, deficit contributions do not reduce versus ~~those expected~~the current contributions from the existing recovery plan.
Transferee Admission Bodies (guaranteed by the letting Scheme Employers)	~~[~~19~~]~~ years	Deficit recovery period to be limited to the lifetime of the contract unless the body is in surplus.

The recovery period adopted for individual employers has been notified to them along with their individual valuation results.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period).

For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is unwound over a ~~[~~19~~]~~ year period unless agreed with the A~~a~~dministering A~~a~~uthority (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers and managing risk in the intervaluation period, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, ~~normally~~ restricted to a maximum period of 19 years, although employers will still be expected to at least cover expected interest costs on the deficit. It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C - ADMISSIONS AND TERMINATION POLICY

ENTRY TO THE FUND

SCHEDULED BODIES

All scheduled bodies are entitled to join the scheme under the regulations. Academies are scheduled bodies under the regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income).

DESIGNATING BODIES

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the regulations to provide a guarantee. These bodies usually have tax raising powers.

ADMISSION BODIES

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an "admission agreement". In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if

- They provide an service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are "not for profit" organisations (formerly known as Community Admission Bodies).

Admitted bodies may only join the Fund if they are guaranteed by a scheme employer. When the agreement or service provision ceases, the Fund's policy is that in all cases it will look to recover any outstanding deficit from the outgoing body unless appropriate instruction is received from the outsourcing employer or guaranteeing employer, in which case the assets and liabilities of the admission body will in ~~all cases~~ revert to the outsourcing scheme employer or guaranteeing employer. ~~If the outsourcing scheme employer or guaranteeing employer wishes to recover any deficit from the admission body, it is a matter between themselves and the admission body. The Fund will require appropriate instruction from the guarantor regarding any outstanding deficit to recover from the outgoing body.~~

CONNECTED ENTITIES

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are "Designating Bodies" under the regulations, they have similar characteristics to admitted bodies (in that there is an "outsourcing employer"). However, the regulations do not strictly require such bodies to have a guarantee from a scheme employer.

To limit the risk to the Fund, the corporate bond funding basis for calculating the liabilities will apply to all new connected entities. In the event that a scheme employer provides a guarantee for their connected entity, the ongoing funding basis will be applied to value the liabilities.

CHILDREN'S CENTRE TRANSFER TO ACADEMY TRUSTS

Local education authorities have an obligation to provide Children's Centres under the Childcare Act 2006. The Act places duties on these authorities in relation to establishing and running Children's Centres and therefore the financial obligation to cover the LGPS costs of eligible staff remains a responsibility of the local education authority regardless of service delivery vehicle. The local education authority is liable for all the LGPS liabilities of the Children's Centre.

As the staff cannot be employed directly by an Academy or Academy Trust, the South Yorkshire Pension Fund will permit admission of a separate participating employer (with its own contribution rate requirements based on the transferring staff), through a tri-partite admission agreement between the South Yorkshire Pension Fund, the Local Education Authority of the ceding Council and the body responsible for managing the Children's Centre (this could be an Academy Trust or private sector employer).

SECOND GENERATION OUTSOURCINGS FOR STAFF NOT EMPLOYED BY THE SCHEME EMPLOYER CONTRACTING THE SERVICES TO AN ADMITTED BODY

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the unitary authorities, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a 'Related Employer' for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor

"Related employer" is defined as "any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)".

LGPS REGULATIONS 2013: SCHEDULE 2 PART 3, PARA 8

Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

(a) a person who funds the admission body in whole or in part;

(b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

> *(d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—*
>
> *(i) the transfer of the service or assets by means of a contract or other arrangement,*
>
> *(ii) a direction made under section 15 of the Local Government Act 1999 (115) (Secretary of State's powers),*
>
> *(iii) directions made under section 497A of the Education Act 1996 (116)* ;

(c) a person who—

(i) owns, or

(ii) controls the exercise of the functions of, the admission body; or

In accordance with the above regulations, the Fund requires a guarantee from the related employer. The related employer may seek a bond from the admitted body taking into account the risk assessment carried out by the Fund actuary.

ILL-HEALTH CAPTIVE

Those employers determined by the administering authority as being automatically eligible for the ill-health captive arrangement on entry to the Fund are as follows:

- Academies
- Admitted Bodies formerly known as Community Admission Bodies
- Designating / Resolution Bodies

EXITING THE FUND

INTRODUCTION

Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

A list of all current admission bodies participating in the Fund is published in the Fund's annual report http://www.sypensions.org.uk/Publications/Annual-Reports

TERMINATION POLICY

When an employer's participation in the Fund comes to its end, or is prematurely terminated for any reason (e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation), employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members.

Where the Fund obtains advance notice that an employer's participation is coming to an end, the Regulations enable the Fund to commission a funding assessment leading to a revised contribution certificate which is designed to eliminate, as far as possible, any surplus or deficit by the cessation date.

Whether or not an interim contribution adjustment has been initiated once participation in the Fund has ceased, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a revision of the rates and adjustment certificate showing any contributions due from the admission body.

The regulations give power to the Fund to set a payment plan to recover the outstanding debt at its discretion. However, under the regulations, once set this plan is fixed it cannot be adjusted at subsequent valuations.

The Fund's policy for termination payment plans is as follows:

- The default position is for exit payments to be paid immediately in full.
- At the discretion of the administering authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.

In the event that unfunded liabilities arise that cannot be recovered from the exiting employer, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

BASIS OF TERMINATION

Whilst reserving the right to consider the options on a case by case basis, the Fund's general policy is that a termination assessment will be made based on a more cautious "minimum risk" funding basis, **unless** a Transferor Body (e.g. guaranteeing employer within the Fund) exists to take over the admission body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the admitted body's liabilities will become "orphan liabilities" within the Fund, and there will be no recourse to the admission body if a shortfall emerges in the future (after the admission has terminated).

Under the “minimum risk” basis of termination the discount rate assumption used will be derived to be consistent with a lower risk investment strategy linked to low risk income generating assets such as bonds. At the 2016 valuation date the discount rate adopted would have been 3.2% per annum. The “minimum risk” assumptions will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body’s cessation date. This is subject to the financial assumptions used being no less cautious than the equivalent valuation assumptions updated appropriately based on the advice of the actuary.

In addition to using a more cautious discount rate, the Actuary will also use a more cautious mortality assumption when assessing the size of the liabilities for termination purposes. In particular, the Actuary will assume a higher improvement rate for future improvements to life expectancy than is used for ongoing funding purposes. Where it is appropriate to apply a more cautious assumption the Actuary will assume that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumption will build in a minimum level of longevity ‘improvement’ year on year in the future in line with the CMI projections subject to a minimum rate of improvement of [2%] per annum for males and females, compared to [1.5%] per annum used in the 2016 valuation for ongoing funding and contribution purposes

If a Transferor Body exists to take over the admission body’s liabilities, the Fund’s policy is that the most recent valuation funding basis will be used for the termination assessment updated for market yields and inflation applying at the termination date. The Transferor Body will then, following any termination payment made, subsume the assets and liabilities of the admission body within the Fund (sometimes known as the “novation” of the admission agreement). This will include the novation to the Transferor Body of any funding deficit (or surplus) on closure, which the Authority has been unable to resolve with the exiting employer or its insurer, indemnifier or bondsman.

IMPLEMENTATION

(I) ADMISSION BODIES PARTICIPATING BY VIRTUE OF A CONTRACTUAL ARRANGEMENT

Under the Regulations any payment requested from the outgoing admission body is ultimately guaranteed by the parent authority if it cannot be reclaimed by Fund from the body or bond provider. In addition there are usually contractual arrangements between the parent authority and the body which means the parent bears the cost of some, if not all, of the termination payment.

Accordingly, in general, the “minimum risk” approach to funding and termination will not apply for admitted bodies which are guaranteed by another Scheme employer.

On termination of an admitted body’s participation, any orphan liabilities in the Fund will be subsumed by the relevant Transferor Body or, in the case of a “6(2)(b) Transferee Admission Body”, the Fund as a whole.

The Transferor Body, is required to carry out an assessment of the level of risk on premature termination of the contract by reason of the insolvency, winding up or liquidation of the Transferee Admission Body subject to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the Fund but may be commissioned separately from any qualified actuary, if preferred. As the Transferor Body is effectively the ultimate guarantor for these admissions to the Fund the decision over the level (if any) of any bond requirement for the Transferee Admission Body is the responsibility of the Transferor Body.

(II) NON CONTRACT BASED ADMISSION BODIES WITH A GUARANTOR IN SYPF

The approach for these will be the same as (i) above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities. Indeed it may be that Fund is prepared to accept that no actual termination payment is needed (even if one is calculated) and that all assets/liabilities can simply be absorbed by the guarantor.

(III) ADMISSION BODIES WITH NO GUARANTOR IN SYPF

These are the cases where the residual liabilities would be orphaned within Fund. It is possible that a bond would be in place. The termination calculation would be on the more cautious “minimum risk” basis.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

(IV) CONNECTED ENTITIES

In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers).

In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

~~RELEVANT REGULATIONS IN ACCORDANCE WITH THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013~~

~~Regulation 64 set out special circumstances where revised actuarial valuations and certificates must be obtained including Regulation 64 (2) where an admission agreement ceases to have effect, the Administering Authority who made it must obtain –~~

- ~~an actuarial valuation as at the date it ceases of the liabilities in respect of current and former employees of the admission body which is a party to that admission agreement ("the outgoing admission body "),~~

- ~~a revision of any rates and adjustments certificate for any Pension Fund which is affected, showing the revised contributions due from the outgoing admission body. Where it is not~~

~~possible for any reason to obtain revised contributions from the outgoing admission body, or from an insurer or any person providing an indemnity or bond on behalf of that admission body, the Administering Authority may obtain a further revision of any rates and adjustment certificate for the Pension Fund, showing —~~

~~a) in the case where the outgoing admission body falls within paragraph 1(d) of Part 3 of Schedule 2 , the revised contributions due from the body which is the related employer in relation to that admission body, and~~

~~b) in any other case, the revised contributions due from each employing authority who contributes to the fund.~~

~~Regulation 64 (4) provides that an Administering Authority may obtain from an actuary a certificate specifying, in the case of an admission body, the percentage or amount by which, in the actuary's opinion,-~~

- ~~the contribution at the primary rate should be adjusted, or~~
- ~~any prior secondary rate adjusted should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will fall due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet the liability by that date, over such period of time thereafter as the Aadministering Aauthority considers reasonable.~~

APPENDIX D - ACADEMIES / MULTI-ACADEMY TRUSTS

ACADEMY CONVERSIONS AND DEFICIT TRANSFERS

The Fund's policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's share of the historic local authority deficit prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools.

Therefore, the transferring deficit is calculated as the capitalised amount of deficit funding contributions (based on the local authority deficit recovery period) the school would have made to the Fund had it not converted to academy status. This deficit amount is subject to a limit to ensure that the minimum asset share of the new academy is nil.

MULTI ACADEMY TRUSTS

Multi Academy Trusts (MATS) are groups of Academies managed and operated by one proprietor. The employer of non-teaching staff in Academies is the proprietor of the Academy Trust and not the individual Academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the pool.

Within a MAT all Academies are governed by one Trust and a Board of Directors. The MAT holds ultimate responsibility for all decisions regarding the running of the individual Academies, however, the governing bodies of the individual academies remain in place and the MAT will need to decide the extent to which it delegates functions to these governing bodies to enable more focused local control.

Multi-Academy Trusts are set up to cover a number of academies across England. The employees of the former schools can be employed directly by the Trust so they can be deployed across different academy schools in the Trust if necessary.

In cases where numerous academies are operated by the same managing Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply to all constituent academies. Notwithstanding this, the Fund will continue to track the constituent academies separately, in the interests of transparency and clarity around entry and exit events.

APPROACH TO SETTING CONTRIBUTION RATES

The South Yorkshire Pension Fund must have a separate employer number for each academy for transparency of cashflows, managing risks should an academy need to leave one Trust for another and for accounting~~FRS~~ reporting where disaggregated disclosure reports are required. It should also be noted that, at the present time, the Department for Education (DfE) guarantee relates to individual academies, not MATs.

The South Yorkshire Pension Fund will explore with the actuary the possibility of having a common ~~FS contribution~~primary rate for all the academies within the trust if the MAT is willing to settle for that approach bearing in mind that the risks of under and over payments will be shared by all academies in the MAT pool. The Fund has requested confirmation from the DfE that the guarantee extends to MATs. In the event that MATs are not guaranteed, the Fund will review any option for MATs to have a common ~~FSR~~primary rate.

The past service deficit will still be assessed at an individual academy level so that it only relates to the staff of the respective academy. The ceding local authority requires a corresponding adjustment for the share of the deficit that transfers on conversion therefore individual academy figures will be required.

Any new academies joining an existing MAT pool in the South Yorkshire Pension Fund can contribute at the employer contribution rate already established for the MAT but an actuarial assessment will still need to be carried out to determine the deficit applicable to the transferring staff.

OUTSOURCINGS BY MULTI ACADEMY TRUSTS

The South Yorkshire Pension Fund's current policy is in accordance with the regulations requiring a separate admission agreement in respect of separate contracts.

Under **Schedule 2, Part 3, paragraph 5. of the 2013 Regulations**, if the admission body is exercising the functions of the Scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

The Fund will need to have sight of the contract in order to satisfy the regulatory requirement that the Admission Agreement covers one contract. The Admission Agreement will need to have provision for adding future employees should any academies join the MAT subsequent to the commencement date.

The Scheme employer, the Multi Academy Trust in this instance, needs to be a party to any admission agreement and, as such, is the ultimate guarantor. In the event of contractor failure, the LGPS regulations provide that the outstanding liabilities assessed by the Fund's actuary can be called from the Scheme employer i.e. the Multi Academy Trust.

If academies are to comply with "new" Fair Deal guidance, employees carrying out a service on behalf of the Academies must be allowed continued access to the LGPS. This can be achieved by entering into an Admission Agreement with the Administering Authority, Multi Academy Trust and the contractor (admitted body).

At every triennial valuation the actuary reviews the funding level of the admitted body and adjusts its employer contribution rate as required. Once either the service contract comes to an end or all the LGPS members have left, the admission agreement terminates and, in accordance with Fund policy, the Fund will commission a cessation valuation in all cases from the Fund actuary to recovery any outstanding deficit unless instructed otherwise by the Trust. T~~t~~he Trust will then becomes responsible for the assets and liabilities standing to the account of the admitted body. ~~A cessation valuation can be provided by the Fund actuary should the Trust request it. In accordance with Fund policy, the academy becomes responsible for the assets and liabilities of and liabilities standing to the account of the admitted body when the admission agreement ceases.~~

APPENDIX E – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond.
2. Transfer to a more prudent actuarial basis (e.g. the termination basis).
3. Shortened recovery periods and increased cash contributions/
4. Managed exit strategies and bespoke investment strategies in the run up to exit.
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX F – ILL-HEALTH CAPTIVE INSURANCE ARRANGEMENT

OVERVIEW

With effect from 1 October 2014, for certain employers in the Fund, following discussions with the Fund Actuary and after considering potential alternative insurance arrangements, a captive insurance arrangement was established by the administering authority to cover ill-health retirement costs.

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into a captive fund which is tracked separately by the Fund Actuary in the valuation calculations.

- The captive fund is then used to meet strain costs emerging from ill-health retirements i.e. there is no impact on funding position for employers within the captive

- Any shortfall in the captive fund is effectively be underwritten by all other employers within the Fund i.e. with potential for increases to their own contribution requirements at subsequent actuarial valuations to meet the shortfall. If any excess funds are built up in the Captive, some or all of those excess funds will be held in reserve to act as a contingency against future adverse experience at the discretion of the administering authority based on the advice of the actuary,

- Premiums payable subject to review from valuation to valuation depending on experience and included in employer rates.

- Over the longer-term, given the regular review of the premiums payable into the Captive fund there would be expected to be no net cost to those employers underwriting the Captive Fund in the long-term i.e. any fluctuations in their own contribution requirements arising from experience would smooth out over time.

EMPLOYERS

Those employers (both existing and new) determined by the administering authority as being eligible for the arrangement were as follows:

- Academies and former Grant Maintained Schools
- Admitted Bodies formerly known as Community Admission Bodies
- Designating / Resolution Bodies
- Other scheduled bodies meeting certain criteria at the inception of the arrangement.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements would still apply i.e. the Fund continues to monitor ill-health retirement strain costs incurred against allowance certified with recovery of any excess costs from the employer once the allowance is exceeded.

PREMIUM REVIEW

As part of the each actuarial valuation exercise (or earlier review if appropriate) the Fund Actuary will review the experience of the captive fund since the last review.

Should the premiums paid into the captive fund over the period not be sufficient to cover the ill-health retirement costs emerging, any shortfall in the fund will be allocated across all those employers within the Fund underwriting the captive. If any excess funds are built up in the Captive, some or all of those excess funds will be held in reserve to act as a contingency against future adverse experience at the discretion of the administering authority based on the advice of the actuary.

The ongoing premium payable by those employers within the captive fund will also be assessed as part of this process and will be set by the Actuary to cover the period until the next review (e.g. to the next actuarial valuation assessment). The Premiums that will be assessed will take into account the expected level of future ill-health retirements across those employers within the captive and also to reflect any adverse/favourable experience where appropriate.

APPENDIX G - GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Corporate Bond Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of high quality corporate bond investments (usually at least AA rated) based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differs from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer Covenant: the degree to which an employer participating in an occupational pension scheme is willing and able to meet the funding requirements of the scheme.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Equities: shares in a company which are bought and sold on a stock exchange.

Solvency/Funding Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: This is a key governance document that outlines how the administering authority will manage employer's contributions to the Fund.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the past service liabilities assessed on the ongoing concern basis.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Ill-Health Captive: this is a notional fund designed to immunise certain employers against excessive ill-health costs in return for an agreed insurance premium.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Past Service Liabilities: this is the present value of the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation requires the assumptions adopted for an actuarial valuation to be prudent.

Real Return or Real Discount Rate: a rate of return or discount rate net of CPI inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period", as set out in the Funding Strategy Statement.

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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Appendix B

FUNDING STRATEGY STATEMENT

SOUTH YORKSHIRE PENSION FUND

MARCH 2017

South Yorkshire Pensions Authority

This Funding Strategy Statement has been prepared by South Yorkshire Pensions Authority (the Administering Authority) to set out the funding strategy for the South Yorkshire Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

EXECUTIVE SUMMARY

It is the fiduciary responsibility of the Administering Authority (South Yorkshire Pensions Authority) to ensure that the South Yorkshire Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term. The Funding Strategy adopted by the South Yorkshire Pension Fund will therefore be critical in achieving this statutory duty.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the **South Yorkshire Pension Fund**.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the South Yorkshire Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND’S OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the overall assumptions used, will be sufficiently prudent for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 86% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. A key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period) and where appropriate consider affordability of contributions. Full details are set out in this FSS.

The average recovery period for the Fund as a whole is 19 years at this valuation which is 3 years shorter than the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce by 3 years at this valuation.

Where there is an increase in contributions required at this valuation the employer may be able to step-up their contributions over a period of 3 years. In certain circumstances, an alternative payment pattern may be agreed with the Administering Authority.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. included in the "Secondary" rate) are set out in an Appendix to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities and solvency level is 2.0% per annum and for determining the future service ("Primary") contribution rates is 2.75% per annum.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund. In addition, the asset share may be restated for changes in data or other policies.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the **Appendix E** to this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in **Appendix C**. Examples of new employers include:

- Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. New academy conversions and multi-academy trusts

Current Fund policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school’s share of the historic local authority deficit prior to its conversion. This deficit is calculated as the capitalised deficit funding contributions (based on the local authority deficit recovery period) the school would have made to the Fund had it not converted to academy status, subject to a minimum asset share of nil.

In cases where numerous academies which participate in the Fund are in the same Multi-Academy Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply. Notwithstanding this, the Fund will continue to track the constituent academies separately on an approximate basis, in the interests of transparency and clarity around entry and exit of individual academies to the Trust in future.

The full policy is shown in **Appendix D**.

4. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer’s liabilities in respect of the benefits of the exiting employer’s current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund’s policy is that a “minimum risk” basis of assessment should apply e.g. one which would assess the liabilities on termination using a discount rate linked to gilt yields and a more prudent longevity assumption. Any exit payments due should be paid immediately although variants to this may be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

5. Insurance arrangements

For certain employers, the Fund currently insures ill health retirement costs via an internal captive insurance arrangement which pools these risks for eligible employers. The captive arrangement will be operated as per the objectives set out in **Appendix F**.

CONTENTS

APPENDICES

1
INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the South Yorkshire Pension Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the South Yorkshire Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the South Yorkshire Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

The Secondary rate is specified in the rates and adjustments certificate.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

2
PURPOSE OF FSS IN POLICY TERMS

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

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

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

3
AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designating and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4

RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- Undertake administration duties in accordance with the Pension Administration Strategy.
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, additional pension contracts, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long term cost efficiency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5

SOLVENCY FUNDING TARGET

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

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As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for deficit contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.

- Subject to consideration of affordability, for scheduled and resolution bodies, and those admission bodies (not operating outsourced services) backed by a scheduled body guarantee, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation (subject to a maximum of 19 years). This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). These principles have resulted in an average recovery period of 19 years being adopted across all Fund employers.

- Those admission bodies operating outsourced services under a contract which expires within the maximum 19 year recovery period, the recovery period to apply will be limited to the lifetime of the contract unless the body is in surplus (see comment below).

- Due to their weaker covenant, admission bodies not backed by a scheduled body guarantee will be subject to the same conditions as above but subject to a maximum recovery period of 14 years unless their defined (or expected) lifespan within the Fund is limited. Such known ((or expected) events that could impact on their participation in the Fund should be notified to the administering authority by the body as soon as practically possible.

- Individual employer contributions will be expressed and certified as two separate elements:
    - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits
    - the **Secondary rate**: a schedule of lump sum monetary amounts and/or % of pay amendment over 2017/20 in respect of an employer's surplus or deficit (including phasing adjustments).

- For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.

- Where an employer is in a surplus position, the Secondary rate deduction from the Primary rate will be adjusted to such an extent that any surplus is used (i.e. run off) over the maximum 19 year period unless agreed otherwise with the administering authority. Such deductions will be subject to a minimum threshold of £100 p.a., below which no deduction will be made. The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

- Where increases in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, the increase from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years. Any step up in Primary rates will be implemented in steps of at least 0.5% of pensionable pay per annum. It may be possible to have a different phasing pattern in certain circumstances subject to the agreement of the administering authority. The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

- For those employers who are eligible for the ill-health captive arrangement, the contributions payable over the period 1 April 2017 to 31 March 2020 will be adjusted accordingly to reflect the premium charged to provide continued protection against the risks of excessive ill-health retirement costs emerging. Further details are provided in Appendix F of these adjustments.

- For certain employers, subject to the agreement of the administering authority, the option to prepay Primary rate contributions may be made available. This option would be on the proviso that a "top-up" payment would be made by the employer prior to the end of the prepayment period in order to ensure that no underpayment emerges versus the minimum required by the valuation certificate.

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. The termination policy is summarised set out in Appendix C

In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

All Employers are required to meet non ill-health early retirement strain costs arising on the grounds of redundancy / efficiency by immediate capital payments into the Fund, or subject to agreement with the administering authority, over a period of up to 3 years.

With regard to voluntary early retirements, the treatment depends on the type of employer:

- For those employers who participate in the ill-health captive, any strain costs emerging will need to be met by immediate capital payments into the Fund, (or over an alternative period subject to the agreement of the administering authority).

- For those employers who don't participate in the captive, the "primary rate" payable over 2017/20 includes an allowance for such costs (alongside ill-health retirement costs). This allowance will be set out in the Actuary's formal valuation report and may be zero depending on the employer's profile. Where voluntary early retirement costs exceed an employer's allowance over the inter-valuation period, the excess costs will become payable immediately (or over an alternative period subject to the agreement of the administering authority).

FUNDING FOR ILL HEALTH RETIREMENT COSTS

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment. The treatment of any ill-health retirement strain cost emerging will vary depending on the type of employer:

- For those employers who participate in the ill-health insurance captive, any ill-health retirement strain cost emerging will be met by a contribution from the captive fund as part of the subsequent actuarial valuation (or termination assessment if sooner). No additional contributions will be due immediately from the employer although an adjustment to the "premium" payable may emerge following the subsequent actuarial valuation, depending on the overall experience of the captive fund.

- For those employers who don't participate in the ill-health captive, the "primary rate" payable over 2017/20 includes an allowance for ill-health retirement costs (alongside those for voluntary early retirements). This allowance will be set out in the Actuary's formal valuation report and may be zero depending on the employer's profile. Where ill-health retirement strain costs exceed an employer's allowance over the inter-valuation period, the excess strain costs will become payable immediately (or over an alternative period subject to the agreement of the administering authority).

FUNDING FOR DEATHS IN SERVICE

The financial impact of the benefits that become payable on the death of a member differ depending on whether the member dies before or after retirement.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

In the event of a member dying whilst in active service, it is not certain that a funding profit would emerge. Whilst the Fund would no longer have to pay the accrued benefits at retirement for the deceased member, a lump sum death grant and also dependants' benefits would become payable instead. The dependants' benefits would also be based on the pensionable service that the member could have accrued had they remained in service until retirement.

Typically, the death of a young member with low pensionable service and dependants is likely to result in a large funding strain for the employer. However, the death of an older/long serving member with no dependants could actually result in a funding profit. Any funding strain or profit will emerge at the next actuarial valuation through increased/reduced deficit, except where the employer is termination when it will be taken into account when the Actuary determines the termination debt.

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LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 86% covered by the current assets, with the funding deficit of 14% being covered by future deficit contributions.

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

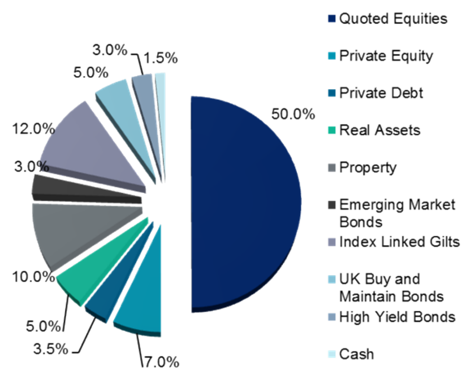
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked gilts, fixed interest gilts and possible investment derivative contracts known as "swaps".

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 59%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The proposed strategic benchmark to apply from 1 April 2017, as set out in the Fund's Investment Strategy Statement is:



For the 2016 valuation, the investment return expectations as calculated by the Actuary equated to an overall best estimate average expected return of 3.4% per annum in excess of CPI inflation over a 20 year time horizon as at 31 March 2016. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations and this is expected under the Regulations and guidance.

RISK MANAGEMENT STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority may consider implementing a risk management framework with the overall aims of reducing risk and providing more stability/certainty of outcomes for funding and ultimately employer contribution rates. The details of any such framework implemented would be appended to the next update of this document once established.

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IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored. In addition the implementation of a risk management framework to manage the key financial risks will help reduce risk over time.

DEMOGRAPHIC

The demographic risks are as follows:-

- Future improvements in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs (aside from ill-health retirement costs which are already insured for eligible employers) being insured with a third party or internally within the Fund. More detail on how the Fund currently insures ill health costs for eligible employers is set out in **Appendix F**.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments and placed a copy on the Fund's website. The first draft was approved at the Committee's meeting on 6 October 2016 and finalised at the meeting on 16 March 2017 after the Fund received feedback from the employing bodies.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Political risk that the academies guarantee from the Department for Education is removed, especially given the large increase in the number of academies in the Fund.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. with regular data reconciliations with employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.

PENSIONS COMMITTEE

South Yorkshire Pensions Authority, as the Administering Authority for South Yorkshire Pension Fund, has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee.

Full details of the business of the authority including the meeting dates of the various Boards, minutes and agenda's, the contact details of the current Members and links to live webcasting of meeting can be found at http://www.southyorks.gov.uk/webcomponents/jsec.aspx

PENSIONS ADMINISTRATION STRATEGY

The Pensions Administration Strategy (PAS) sets out clear standards of service to members by defining employer and Fund responsibilities in administering the Scheme and sets out the requirements for the two way flow of information. The employer should notify the administering authority of the following events.

- Structural change in employer's membership e.g. large fall in employee numbers or large number of retirements.
- A closure in accessibility of the scheme to new entrants.
- An employer ceasing to exist.

The strategy has been developed and adopted in consultation and agreement with the participating Fund Employers and is provided for through statute by Regulation 59 of the Local Government Pension Scheme Regulations 2013 (as amended). It sets out, amongst other things, how the Administering Authority, SYPA, will administer the Pension Scheme and Fund on behalf of Employing Organisations, and their Scheme Members, participating in the South Yorkshire Pension Fund, its requirements for employers in terms of the timely and accurate provision of information pertinent to the administration of the Scheme and Fund, and the penalties to be applied to those employing organisations failing to meet their duties, responsibilities and obligations as detailed within the strategy document.

The strategy has been developed and adopted in consultation to improve the overall standard of administration of the Scheme and the Fund and is intended to apply in a spirit of partnership working and co-operation where every assistance, tool, facility, system, training and guidance will be provided where possible to enable employers to improve administrative performance and meet the requirements of the strategy. Any penalties and censures carried within the strategy are not intended to apply as a first resort but rather as a last resort following a period of time and opportunity given for improvement to any organisation struggling to meet its obligations.

LOCAL PENSION BOARD

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

The Secretary of State granted the two South Yorkshire LGPS Funds permission to establish a Joint Local Pension Board. The role of the Local Pension Board is defined by Sections 5(1) and (2) of the Public Service Pensions Act 2013.

The Board seeks to assist the South Yorkshire Pensions Authority and the South Yorkshire Passenger Transport Pension Fund to maintain effective and efficient administration and governance. Members of the Scheme can now have direct influence on how the Fund is managed. The LPB comprises both Scheme members, retired and active, together with employer representatives. Employer representation is not restricted to the four large local Councils.

Although the Board only held its first meeting on 23 July 2015 it is already contributing towards the effective governance of the two Funds. It meets quarterly and all Board Members have undertaken training and have established a work programme that will enable them to meet their obligations to ensure that the two Funds comply with the relevant codes of practice and current legislation.

The draft Board constitution was suggested by the two administering authorities but since then changes have been agreed which remove what some regarded as unnecessary restrictions on the scope of the LPB’s ability to question and offer advice on investments. This demonstrates that, whilst not having direct control over the two Funds, the LPB intends to work with the Funds on the widest possible range of issues.

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MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

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

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

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

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.0% per annum above CPI inflation i.e. a real return of 2.0% per annum i.e. a total discount rate of 4.2% per annum. This real return will be reviewed from time, to time, typically at the time of a formal valuation or bond review based on the investment strategy, market outlook and the Fund's overall risk metrics

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index.

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for employers Depending on the circumstances of the employer, the variants on short term pay that have been applied are either allowances of 1.25% or 1.75% per annum for each year from the valuation date up to 31 March 2020. The allowance made has been notified to each employer separately on their individual results schedule.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum for males and females.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 10% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund. In addition, the asset share may be restated for changes in data or other policies.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.2% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.2% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases*	3.45% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases*	3.45% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

* in addition to this, an allowance for further short-term pay restraint may be made. This will be either be 1.25% p.a. or 1.75% p.a. for 4 years to 2019/20 depending on an employer's circumstances.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

-Post retirement mortality tables

Current Status	Retirement Type	2013 study	2016 study
Annuitant	Normal Health	99% S1PMA_CMI_2012[1.5%] / 96% S1PFA_CMI_2012[1.5%]	96% S2PMA_CMI_2015[1.5%] / 88% S2PFA_CMI_2015[1.5%]
	Dependant	162% S1PMA_CMI_2012[1.5%] / 113% S1DFA_CMI_2012[1.5%]	122% S2PMA_CMI_2015[1.5%] / 104% S2DFA_CMI_2015[1.5%]
	Ill Health	99% S1PMA_CMI_2012[1.5%] + 3 yrs / 96% S1PFA_CMI_2012[1.5%] + 3 yrs	96% S2PMA_CMI_2015[1.5%] + 3 yrs / 88% S2PFA_CMI_2015[1.5%] + 3 yrs
Active	Normal Health	98% S1PMA_CMI_2012[1.5%] / 91% S1PFA_CMI_2012[1.5%]	96% S2PMA_CMI_2015[1.5%] / 88% S2PFA_CMI_2015[1.5%]
	Ill Health	98% S1PMA_CMI_2012[1.5%] + 4 yrs / 91% S1PFA_CMI_2012[1.5%] + 4 yrs	96% S2PMA_CMI_2015[1.5%] + 4 yrs / 88% S2PFA_CMI_2015[1.5%] + 4 yrs
Deferred	All	121% S1PMA_CMI_2012[1.5%] / 106% S1PFA_CMI_2012[1.5%]	96% S2PMA_CMI_2015[1.5%] / 88% S2PFA_CMI_2015[1.5%]
Future Dependant	Dependant	108% S1PMA_CMI_2012[1.5%] / 102% S1DFA_CMI_2012[1.5%]	119% S2PMA_CMI_2015[1.5%] / 114% S2DFA_CMI_2015[1.5%]

-Life expectancies at age 65

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.8	25.6
Actives aged 45 now	25.0	27.9
Deferreds aged 45 now	25.0	27.9

Other demographic assumptions are set out in the Actuary's formal report.

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and will increase at 2.2% p.a. (unless agreed with the Administering Authority). It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The principles used to determine the recovery periods is summarised in the table below. These will be used to derive the minimum contributions payable subject to reasonable affordability and covenant assessment. In some cases, the actuary may recommend a higher deficit contribution for 2017/20.

Category	Maximum Deficit Recovery Period	Derivation
District Councils	19 years	Determined by reducing the period from the preceding valuation by at least 3 years
Other Tax-raising Scheduled and Designating Bodies	19 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure, where appropriate, deficit contributions do not reduce versus the current contributions from the existing recovery plan.
Academies and Multi-Academy Trusts	19 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure, where appropriate, deficit contributions do not reduce versus the current contributions from the existing recovery plan.
Higher and Further Education Bodies (Universities and Colleges)	19 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure, where appropriate, deficit contributions do not reduce versus the current contributions from the existing recovery plan.
Community Admission Bodies (guaranteed by another Scheme Employer within the Fund)	19 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure, where appropriate deficit contributions do not reduce versus the current contributions from the existing recovery plan.

Community Admission Bodies (with no guarantee),	14years	Determined by reducing the period from the preceding valuation by at least 3 years (unless the expected participation in the Fund is known and is shorter) and to ensure, where appropriate, deficit contributions do not reduce versus the current contributions from the existing recovery plan.
Transferee Admission Bodies (guaranteed by the letting Scheme Employers)	19 years	Deficit recovery period to be limited to the lifetime of the contract unless the body is in surplus.

The recovery period adopted for individual employers has been notified to them along with their individual valuation results.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period).

For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is unwound over a 19 year period unless agreed with the Administering Authority (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers and managing risk in the intervaluation period, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, restricted to a maximum period of 19 years, although employers will still be expected to at least cover expected interest costs on the deficit. It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C - ADMISSIONS AND TERMINATION POLICY

ENTRY TO THE FUND

SCHEDULED BODIES

All scheduled bodies are entitled to join the scheme under the regulations. Academies are scheduled bodies under the regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income).

DESIGNATING BODIES

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the regulations to provide a guarantee. These bodies usually have tax raising powers.

ADMISSION BODIES

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an “admission agreement”. In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if

- They provide an service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are “not for profit” organisations (formerly known as Community Admission Bodies).

Admitted bodies may only join the Fund if they are guaranteed by a scheme employer. When the agreement or service provision ceases, the Fund’s policy is that in all cases it will look to recover any outstanding deficit from the outgoing body unless appropriate instruction is received from the outsourcing employer or guaranteeing employer, in which case the assets and liabilities of the admission body will in revert to the outsourcing scheme employer or guaranteeing employer.

CONNECTED ENTITIES

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are “Designating Bodies” under the regulations, they have similar characteristics to admitted bodies (in that there is an “outsourcing employer”). However, the regulations do not strictly require such bodies to have a guarantee from a scheme employer.

To limit the risk to the Fund, the corporate bond funding basis for calculating the liabilities will apply to all new connected entities. In the event that a scheme employer provides a guarantee for their connected entity, the ongoing funding basis will be applied to value the liabilities.

CHILDREN'S CENTRE TRANSFER TO ACADEMY TRUSTS

Local education authorities have an obligation to provide Children's Centres under the Childcare Act 2006. The Act places duties on these authorities in relation to establishing and running Children's Centres and therefore the financial obligation to cover the LGPS costs of eligible staff remains a responsibility of the local education authority regardless of service delivery vehicle. The local education authority is liable for all the LGPS liabilities of the Children's Centre.

As the staff cannot be employed directly by an Academy or Academy Trust, the South Yorkshire Pension Fund will permit admission of a separate participating employer (with its own contribution rate requirements based on the transferring staff), through a tri-partite admission agreement between the South Yorkshire Pension Fund, the Local Education Authority of the ceding Council and the body responsible for managing the Children's Centre (this could be an Academy Trust or private sector employer).

SECOND GENERATION OUTSOURCINGS FOR STAFF NOT EMPLOYED BY THE SCHEME EMPLOYER CONTRACTING THE SERVICES TO AN ADMITTED BODY

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the unitary authorities, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a 'Related Employer' for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor

"Related employer" is defined as "any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)".

LGPS REGULATIONS 2013: SCHEDULE 2 PART 3, PARA 8

Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

(a) a person who funds the admission body in whole or in part;

(b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

(d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

(i) the transfer of the service or assets by means of a contract or other arrangement,

(ii) a direction made under section 15 of the Local Government Act 1999 (115) (Secretary of State's powers),

(iii) directions made under section 497A of the Education Act 1996 (116) ;

(c) a person who—

(i) owns, or

(ii) controls the exercise of the functions of, the admission body; or

In accordance with the above regulations, the Fund requires a guarantee from the related employer. The related employer may seek a bond from the admitted body taking into account the risk assessment carried out by the Fund actuary.

ILL-HEALTH CAPTIVE

Those employers determined by the administering authority as being automatically eligible for the ill-health captive arrangement on entry to the Fund are as follows:

- Academies
- Admitted Bodies formerly known as Community Admission Bodies
- Designating / Resolution Bodies

EXITING THE FUND

INTRODUCTION

Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

A list of all current admission bodies participating in the Fund is published in the Fund's annual report http://www.sypensions.org.uk/Publications/Annual-Reports

TERMINATION POLICY

When an employer's participation in the Fund comes to its end, or is prematurely terminated for any reason (e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation), employees may transfer to another employer, either within the

Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members.

Where the Fund obtains advance notice that an employer's participation is coming to an end, the Regulations enable the Fund to commission a funding assessment leading to a revised contribution certificate which is designed to eliminate, as far as possible, any surplus or deficit by the cessation date.

Whether or not an interim contribution adjustment has been initiated once participation in the Fund has ceased, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a revision of the rates and adjustment certificate showing any contributions due from the admission body.

The regulations give power to the Fund to set a payment plan to recover the outstanding debt at its discretion. However, under the regulations, once set this plan is fixed it cannot be adjusted at subsequent valuations.

The Fund's policy for termination payment plans is as follows:

- The default position is for exit payments to be paid immediately in full.
- At the discretion of the administering authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.

In the event that unfunded liabilities arise that cannot be recovered from the exiting employer, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

BASIS OF TERMINATION

Whilst reserving the right to consider the options on a case by case basis, the Fund's general policy is that a termination assessment will be made based on a more cautious "minimum risk" funding basis, **unless** a Transferor Body (e.g. guaranteeing employer within the Fund) exists to take over the admission body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the admitted body's liabilities will become "orphan liabilities" within the Fund, and there will be no recourse to the admission body if a shortfall emerges in the future (after the admission has terminated).

Under the "minimum risk" basis of termination the discount rate assumption used will be derived to be consistent with a lower risk investment strategy linked to low risk income generating assets such as bonds. At the 2016 valuation date the discount rate adopted would have been 3.2% per annum. The "minimum risk" assumptions will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date. This is subject to the financial assumptions used being no less cautious than the equivalent valuation assumptions updated appropriately based on the advice of the actuary.

In addition to using a more cautious discount rate, the Actuary will also use a more cautious mortality assumption when assessing the size of the liabilities for termination purposes. In particular, the Actuary will assume a higher improvement rate for future improvements to life expectancy than is used for ongoing funding purposes. Where it is appropriate to apply a more cautious assumption the Actuary will assume that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumption will build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 2% per annum for males and females, compared to 1.5% per annum used in the 2016 valuation for ongoing funding and contribution purposes

If a Transferor Body exists to take over the admission body's liabilities, the Fund's policy is that the most recent valuation funding basis will be used for the termination assessment updated for market yields and inflation applying at the termination date. The Transferor Body will then, following any termination payment made, subsume the assets and liabilities of the admission body within the Fund (sometimes known as the "novation" of the admission agreement). This will include the novation to the Transferor Body of any funding deficit (or surplus) on closure, which the Authority has been unable to resolve with the exiting employer or its insurer, indemnifier or bondsman.

IMPLEMENTATION

(I) ADMISSION BODIES PARTICIPATING BY VIRTUE OF A CONTRACTUAL ARRANGEMENT

Under the Regulations any payment requested from the outgoing admission body is ultimately guaranteed by the parent authority if it cannot be reclaimed by Fund from the body or bond provider. In addition there are usually contractual arrangements between the parent authority and the body which means the parent bears the cost of some, if not all, of the termination payment.

Accordingly, in general, the "minimum risk" approach to funding and termination will not apply for admitted bodies which are guaranteed by another Scheme employer.

On termination of an admitted body's participation, any orphan liabilities in the Fund will be subsumed by the relevant Transferor Body or, in the case of a "6(2)(b) Transferee Admission Body", the Fund as a whole.

The Transferor Body, is required to carry out an assessment of the level of risk on premature termination of the contract by reason of the insolvency, winding up or liquidation of the Transferee Admission Body subject to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the actuary to the Fund but may be commissioned separately from any qualified actuary, if preferred. As the Transferor Body is effectively the ultimate guarantor for these admissions to the Fund the decision over the level (if any) of any bond requirement for the Transferee Admission Body is the responsibility of the Transferor Body.

(II) NON CONTRACT BASED ADMISSION BODIES WITH A GUARANTOR IN SYPF

The approach for these will be the same as (i) above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities. Indeed it may be that Fund is prepared to accept that no actual termination payment is needed (even if one is calculated) and that all assets/liabilities can simply be absorbed by the guarantor.

(III) ADMISSION BODIES WITH NO GUARANTOR IN SYPF

These are the cases where the residual liabilities would be orphaned within Fund. It is possible that a bond would be in place. The termination calculation would be on the more cautious "minimum risk" basis.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

(IV) CONNECTED ENTITIES

In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers).

In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

APPENDIX D - ACADEMIES / MULTI-ACADEMY TRUSTS

ACADEMY CONVERSIONS AND DEFICIT TRANSFERS

The Fund's policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's share of the historic local authority deficit prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools.

Therefore, the transferring deficit is calculated as the capitalised amount of deficit funding contributions (based on the local authority deficit recovery period) the school would have made to the Fund had it not converted to academy status. This deficit amount is subject to a limit to ensure that the minimum asset share of the new academy is nil.

MULTI ACADEMY TRUSTS

Multi Academy Trusts (MATS) are groups of Academies managed and operated by one proprietor. The employer of non-teaching staff in Academies is the proprietor of the Academy Trust and not the individual Academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the pool.

Within a MAT all Academies are governed by one Trust and a Board of Directors. The MAT holds ultimate responsibility for all decisions regarding the running of the individual Academies, however, the governing bodies of the individual academies remain in place and the MAT will need to decide the extent to which it delegates functions to these governing bodies to enable more focused local control.

Multi-Academy Trusts are set up to cover a number of academies across England. The employees of the former schools can be employed directly by the Trust so they can be deployed across different academy schools in the Trust if necessary.

In cases where numerous academies are operated by the same managing Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply to all constituent academies. Notwithstanding this, the Fund will continue to track the constituent academies separately, in the interests of transparency and clarity around entry and exit events.

APPROACH TO SETTING CONTRIBUTION RATES

The South Yorkshire Pension Fund must have a separate employer number for each academy for transparency of cashflows, managing risks should an academy need to leave one Trust for another and for accounting reporting where disaggregated disclosure reports are required. It should also be noted that, at the present time, the Department for Education (DfE) guarantee relates to individual academies, not MATs.

The South Yorkshire Pension Fund will explore with the actuary the possibility of having a common primary rate for all the academies within the trust if the MAT is willing to settle for that approach bearing in mind that the risks of under and over payments will be shared by all academies in the MAT pool. The Fund has requested confirmation from the DfE that the guarantee extends to MATs. In the event that MATs are not guaranteed, the Fund will review any option for MATs to have a common primary rate.

The past service deficit will still be assessed at an individual academy level so that it only relates to the staff of the respective academy. The ceding local authority requires a corresponding adjustment for the share of the deficit that transfers on conversion therefore individual academy figures will be required.

Any new academies joining an existing MAT pool in the South Yorkshire Pension Fund can contribute at the employer contribution rate already established for the MAT but an actuarial assessment will still need to be carried out to determine the deficit applicable to the transferring staff.

OUTSOURCINGS BY MULTI ACADEMY TRUSTS

The South Yorkshire Pension Fund's current policy is in accordance with the regulations requiring a separate admission agreement in respect of separate contracts.

Under **Schedule 2, Part 3, paragraph 5. of the 2013 Regulations**, if the admission body is exercising the functions of the Scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

The Fund will need to have sight of the contract in order to satisfy the regulatory requirement that the Admission Agreement covers one contract. The Admission Agreement will need to have provision for adding future employees should any academies join the MAT subsequent to the commencement date.

The Scheme employer, the Multi Academy Trust in this instance, needs to be a party to any admission agreement and, as such, is the ultimate guarantor. In the event of contractor failure, the LGPS regulations provide that the outstanding liabilities assessed by the Fund's actuary can be called from the Scheme employer i.e. the Multi Academy Trust.

If academies are to comply with "new" Fair Deal guidance, employees carrying out a service on behalf of the Academies must be allowed continued access to the LGPS. This can be achieved by entering into an Admission Agreement with the Administering Authority, Multi Academy Trust and the contractor (admitted body).

At every triennial valuation the actuary reviews the funding level of the admitted body and adjusts its employer contribution rate as required. Once either the service contract comes to an end or all the LGPS members have left, the admission agreement terminates and, in accordance with Fund policy, the Fund will commission a cessation valuation in all cases from the Fund actuary to recovery any outstanding deficit unless instructed otherwise by the Trust. The Trust will then become responsible for the assets and liabilities standing to the account of the admitted body.

APPENDIX E – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond.
2. Transfer to a more prudent actuarial basis (e.g. the termination basis).
3. Shortened recovery periods and increased cash contributions/
4. Managed exit strategies and bespoke investment strategies in the run up to exit.
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX F – ILL-HEALTH CAPTIVE INSURANCE ARRANGEMENT

OVERVIEW

With effect from 1 October 2014, for certain employers in the Fund, following discussions with the Fund Actuary and after considering potential alternative insurance arrangements, a captive insurance arrangement was established by the administering authority to cover ill-health retirement costs.

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into a captive fund which is tracked separately by the Fund Actuary in the valuation calculations.

- The captive fund is then used to meet strain costs emerging from ill-health retirements i.e. there is no impact on funding position for employers within the captive

- Any shortfall in the captive fund is effectively be underwritten by all other employers within the Fund i.e. with potential for increases to their own contribution requirements at subsequent actuarial valuations to meet the shortfall. If any excess funds are built up in the Captive, some or all of those excess funds will be held in reserve to act as a contingency against future adverse experience at the discretion of the administering authority based on the advice of the actuary,

- Premiums payable subject to review from valuation to valuation depending on experience and included in employer rates.

- Over the longer-term, given the regular review of the premiums payable into the Captive fund there would be expected to be no net cost to those employers underwriting the Captive Fund in the long-term i.e. any fluctuations in their own contribution requirements arising from experience would smooth out over time.

EMPLOYERS

Those employers (both existing and new) determined by the administering authority as being eligible for the arrangement were as follows:

- Academies and former Grant Maintained Schools
- Admitted Bodies formerly known as Community Admission Bodies
- Designating / Resolution Bodies
- Other scheduled bodies meeting certain criteria at the inception of the arrangement.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements would still apply i.e. the Fund continues to monitor ill-health retirement strain costs incurred against allowance certified with recovery of any excess costs from the employer once the allowance is exceeded.

PREMIUM REVIEW

As part of the each actuarial valuation exercise (or earlier review if appropriate) the Fund Actuary will review the experience of the captive fund since the last review.

Should the premiums paid into the captive fund over the period not be sufficient to cover the ill-health retirement costs emerging, any shortfall in the fund will be allocated across all those employers within the Fund underwriting the captive. If any excess funds are built up in the Captive, some or all of those excess funds will be held in reserve to act as a contingency against future adverse experience at the discretion of the administering authority based on the advice of the actuary.

The ongoing premium payable by those employers within the captive fund will also be assessed as part of this process and will be set by the Actuary to cover the period until the next review (e.g. to the next actuarial valuation assessment). The Premiums that will be assessed will take into account the expected level of future ill-health retirements across those employers within the captive and also to reflect any adverse/favourable experience where appropriate.

APPENDIX G - GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Corporate Bond Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of high quality corporate bond investments (usually at least AA rated) based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differs from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer Covenant: the degree to which an employer participating in an occupational pension scheme is willing and able to meet the funding requirements of the scheme.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Equities: shares in a company which are bought and sold on a stock exchange.

Solvency/Funding Level: the ratio of the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.

Funding Strategy Statement: This is a key governance document that outlines how the administering authority will manage employer's contributions to the Fund.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the past service liabilities assessed on the ongoing concern basis.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Ill-Health Captive: this is a notional fund designed to immunise certain employers against excessive ill-health costs in return for an agreed insurance premium.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Past Service Liabilities: this is the present value of the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation requires the assumptions adopted for an actuarial valuation to be prudent.

Real Return or Real Discount Rate: a rate of return or discount rate net of CPI inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period", as set out in the Funding Strategy Statement.

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

SOUTH YORKSHIRE PENSIONS AUTHORITY

16 March 2017

Report of the Clerk, Treasurer and Interim Fund Director

LOCAL GOVERNMENT PENSION SCHEME (LGPS) REQUIREMENTS FOR ASSET POOLING

1.0 PURPOSE OF REPORT

1.1 To seek authority for the South Yorkshire Pensions Authority to pool its LGPS assets with 12 other Funds in a newly created wholly owned local government regulated asset management company - Border to Coast Pensions Partnership Limited (BCPP Ltd) as its chosen means of achieving regulatory compliance.

2.0 RECOMMENDATIONS

2.1 That the Authority meets the regulatory requirements to pool Pension Fund assets by:

1. agreeing to be a member of the Border to Coast Pensions Partnership (BCPP) and to adopt its arrangements, by authorising the Clerk and the S151 officer in consultation with the Interim Fund Director to finalise the approval and execution, where required, of all legal documents necessary to give effect to the decisions below:

    i. entering into the Inter-Authority Agreement between the Authority and the administering authorities of the other Pool Funds

    ii. entering into the Shareholders' Agreement between the Authority and the administering authorities of the other Pool Funds and Border to Coast Pensions Partnership Limited

    iii. agreeing the Articles of Association to be adopted by Border to Coast Pensions Partnership Ltd.

2. approving the establishment of the Border to Coast Pensions Partnership Joint Committee as a formal Joint Committee under section 102 of the Local Government Act 1972 in accordance with and to carry out the functions as set out in the Inter-Authority Agreement.

3. approving the subscription by the South Yorkshire Pension Fund of 1 Class A voting share in the asset management company, Border to Coast Pensions Partnership Limited.

4. appointing the Chair of the Authority (subject to substitution arrangements to be set out in the constitution) as the shareholder for BCPP Ltd.

5. approving the subscription by the South Yorkshire Pension Fund for such number of Class B non-voting shares in the Border to Coast Pensions Partnership Limited as shall be necessary to ensure that the Authority contributes by way of equity one twelfth of the minimum regulatory capital requirement of the company as determined by the requirements of the Financial Conduct Authority (FCA).

6. appointing the Chair (subject to substitution arrangements to be set out in the constitution) to represent the Authority on behalf of the Fund at the Border to Coast Pensions Partnership Joint Committee meetings.

7. authorising the Clerk to make the consequential changes required to the Constitution to reflect these new arrangements.

2.2 To note that the Authority will act as agent for the Sheffield City Region Combined Authority (SCRCA) to exercise the investment of the South Yorkshire Passenger Transport Pension Fund (SYPTPF) in the BCPP Pool under a delegated agreement. The SCRCA does not intend to become a shareholder in BCPP Limited. The reason for this is that it would not be seen as cost-effective for SCRCA to incur associated costs of shareholding nor to subscribe for the regulatory capital of BCPP Limited.

3.0 BACKGROUND

South Yorkshire Pensions Authority (SYPA)

3.1 SYPA is the administering authority for the South Yorkshire Pension Fund (SYPF). As at 31 March 2016, SYPF had assets of £6.22bn and a Funding level of 86%. There were 346 contributing employers from the public and private sector, and over 148,000 active, deferred pensioner and pensioner members.

Local Government Pension Scheme Asset Pooling

3.2 Following three years of consultation up to November 2015, the Government issued an Investment Reform Criteria and Guidance document inviting proposals for pooling. Estimated annual savings were assessed as £200m - £300m across the Local Government Pension Scheme (LGPS).

3.3 In the July 2015 Budget, the then Chancellor announced the Government's intention to work with (LGPS) administering authorities to ensure they pool investments to reduce costs while maintaining investment performance.

3.4 The Criteria and Guidance published in November 2015 required all LGPS administering authorities to submit to Government initial and detailed proposals by 19 February 2016 and 15 July 2016 respectively.

3.5 On 14 January 2016 the Authority agreed a preferred pooling partner subsequently named the Border to Coast Pensions Partnership (BCPP), on the basis that this represented the best arrangement for the Authority. The Authority is a joint signatory to both the BCPP initial and detailed proposals. The latter having been reported to the Authority on 30 June 2016.

3.6 Eight separate investment pools submitted detailed proposals to Government by 15 July 2016, including BCPP. The other seven pools are as follows (figures as at 31 March 2015):

- Central - a group of funds in the Midlands, with assets of £34bn
- Brunel - a group of funds in the South West, with assets of £22bn
- ACCESS - a South East based group of funds, with assets of £36bn
- Wales - all 8 funds in Wales, with assets of £12bn
- Northern - Merseyside, Greater Manchester and West Yorkshire, with assets of £36bn
- London - all 33 London boroughs, with assets of £25bn
- Local Pensions Partnership - Lancashire, London Pension Fund Authority and Berkshire, with assets of £14bn

3.7 On 1 November 2016 the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016 came into force. These Regulations mandate that the 89 separate Local Government Pension Scheme Funds in England and Wales combine their assets into a small number of investment pools.

3.8 Those Regulations require each LGPS administering authority to formulate, having taken proper advice, an investment strategy and to publish a statement of that strategy no later than 1 April 2017. That investment strategy must include the administering authority's approach to pooling investments including the use of collective investment vehicles and must be in accordance with guidance issued by the Secretary of State.

3.9 The Guidance states that each LGPS administering authority must commit to a suitable pool to achieve benefits of scale and must confirm their chosen investment pool meets the Investment Reform and Criteria issued in November 2015. The Secretary of State has direction and intervention powers if he is not satisfied that an administering authority is complying with its obligations in relation to the Regulations.

3.10 The Secretary of State approved BCPP as meeting the requirements of the Investment Reform and Criteria document by letter (**Appendix 1**) dated 12 December 2016.

3.11 There is an extremely challenging timetable in order to meet the Government’s expected timetable for the start of the Pools. For the Pools to be able to manage from April 2018 there is a need to create a fully FCA regulated company and that will require core systems and processes. This, in turn, will require dedicated staff who will themselves be subject to FCA scrutiny. As a result, the BCPP is looking for firm commitment before March 2017 so that progress can be made.

4.0 POOLING PROPOSALS

Overview

4.1 The BCPP is proposed to be formed of 13 LGPS Funds with combined assets of over £40 billion at 30 September 2016. Fund values totalling £35.9m were included in the proposal to Government as they were based on data as at 31 March 2015 and are set out in the table below.

BCPP Partners:	Fund Value at 31/03/2015 (£bn)
Bedfordshire Pension Fund	1.7
Cumbria Pension Fund	2.0
Durham Pension Fund	2.3
East Riding Pension Fund	3.7
Lincolnshire Pension Fund	1.8
North Yorkshire Pension Fund	2.4
Northumberland Pension Fund	1.1
South Yorkshire Pension Fund	6.3
South Yorkshire Passenger Transport Pension Fund	0.2
Surrey Pension Fund	3.2
Teesside Pension Fund	3.2
Tyne and Wear Pension Fund	6.4
Warwickshire Pension Fund	1.7
BCPP TOTAL	**35.9**

4.2 In developing the BCPP proposal in response to the Government's pooling requirements, both the independent specialist legal and cost/benefit advisors concluded that the most appropriate approach, given the constituent make-up of the partner Funds of BCPP, was for a separate vehicle to be established in the form of a wholly owned 'Teckal' compliant company, which would be regulated by the FCA. Teckal refers to an established legal ruling allowing Authorities (under certain circumstances as explained in para. 4.21 below) to enter into contracts with other public bodies without the formalities and costs of competition under the Public Contracts Regulation 2015.

Financial Assessment

4.3 Empirical evidence from independent cost consultants CEM Benchmarking shows that if appropriately implemented, larger asset pools can achieve material benefits in fee savings and/or in transaction costs, plus they generally have improved governance structures. Specialist external advice acquired for BCPP further supports this.

4.4 The proposal submitted to government in July 2016 outlines that the BCPP set up costs are expected to be between £2.28m and £4.15m – of which SYPF will be responsible for 1/12th i.e. between £190k and £350k. These amounts will be payable over the lead-in period up to formal operation of the newly created asset management company, scheduled for April 2018.

4.5 The initial savings projections detailed in the proposal (high and low case) show that once operational the full annual savings to BCPP are estimated to be between £52.4m to £22.4m per year by 2030 (i.e. when all the alternatives in closed ended funds have run off and have been reinvested through BCPP Ltd). For SYPA savings begin to exceed costs in either year 3 (2020) or year 7 (2024); high and low case scenario.

4.6 The annual savings estimated for the South Yorkshire Pension Fund by 2030 are between £5.3m and £1.2m (high and low case). Due to the relatively low existing internal management costs, SYPA faces a share of set up costs and a 'pool' share of operating costs which will initially be higher than our base costs in the first years of operation. Payback would be achieved in the best case scenario by 2020 and in the worst case scenario by 2030. (i.e. when the expected reduction in management fees via 'pooling' outweigh the set up and ongoing costs of operating the 'pool').

Legal Assessment

4.7 The work to develop the BCPP pooling proposal through the establishment of BCPP Ltd has been supported by two sets of external lawyers. Eversheds has been appointed to advise the newly constituted company and to support its set up. Squire Patton Boggs has been appointed to advise the Partner Funds in reaching their decision to approve the arrangements, to ensure the interests of the Partner Funds are reflected in the constitution of the company and the Shareholders' Agreement, and to ensure that the governance arrangements, specifically the Joint Committee, are fit for purpose.

4.8 The Summary of Pool Governance Structure document, attached as **Appendix 2** gives a general description of the arrangements, and draws out key themes and their implications. It has been prepared by Eversheds and approved by Squire Patton Boggs. It refers to documentation, described elsewhere in this Report, including the Shareholders' Agreement and the Inter-Authority Agreement and has been negotiated with the benefit of legal advice from both firms. Monitoring Officers, Section 151 officers and other representatives from all administering authorities have been engaged in the process of developing and finalising the documentation in what has been a very challenging timetable. Due to the challenging timescales for approval of all the legal documents delegation to the Clerk and the S151 officer in consultation with the Interim Fund Director is recommended to finalise any agreements as necessary.

4.9 Squire Patton Boggs have produced a legal summary of the issues and conclude that "the proposal to participate in the BCPP Pool and to subscribe for shares in BCPP Limited is in compliance with the statutory obligations which fall upon the Authorities, and there are no obstacles to the structure which has been proposed".

Governance

4.10 There will be a need for each partner Fund to distinguish between its role as a shareholder, which is a new function, versus its role as an investor in a collective investment vehicle. The two have fundamentally different functions.

4.11 Shareholder functions relate to the ownership of BCPP Limited and are subject to company law and key company documents. Because the Authority as a corporate body cannot exercise its rights as shareholder directly, it will need to act through a nominated shareholder representative who will either vote by attendance at shareholder meetings of the company or by signing written resolutions as permitted by company law.

4.12 Investor rights relate to the investments in the asset pool within BCPP Ltd as a 'customer'. There will be a need for a collective forum to discuss common investor issues. It is proposed that this is through a Joint Committee consistent with public law requirements.

4.13 An Authority Member will need to be appointed to this Committee. To effectively represent the Fund, the Member of this Committee will need to be conversant with SYPA's investment strategy and asset allocation strategy, performance expectations and risk appetite.

4.14 It is acceptable that the two functions be undertaken by the same individual, but it is not necessary. It is up to each Partner Fund to decide who will fulfil each of these two roles.

Constitution

4.15 It is proposed that the Authority's constitution be updated to reflect these new appointments of shareholder representative and the Joint Committee representative. An appropriate conflicts policy will need to be in place where they are filled by the same representative.

4.16 The diagram below details the proposed governance structure of BCPP and how the various control groups are envisaged to interact with each other. These various elements of the governance structure are described below and in more detail in **Appendix 2**. The Company will operate under FCA regulated vehicles in a contractual relationship with each of its investors who will have legal rights under English law.

Local Pension Board (LPB) and Trade Union representation

4.17 SYPA policy will be to promote Trade Union representation on behalf of scheme members at Pool level in a non – voting, observer capacity.
The Chair and Vice Chair will hold meetings with the Chair of the LPB and Trade Union representatives, ahead of BCPP Joint Committee meetings, to consult on the agenda.

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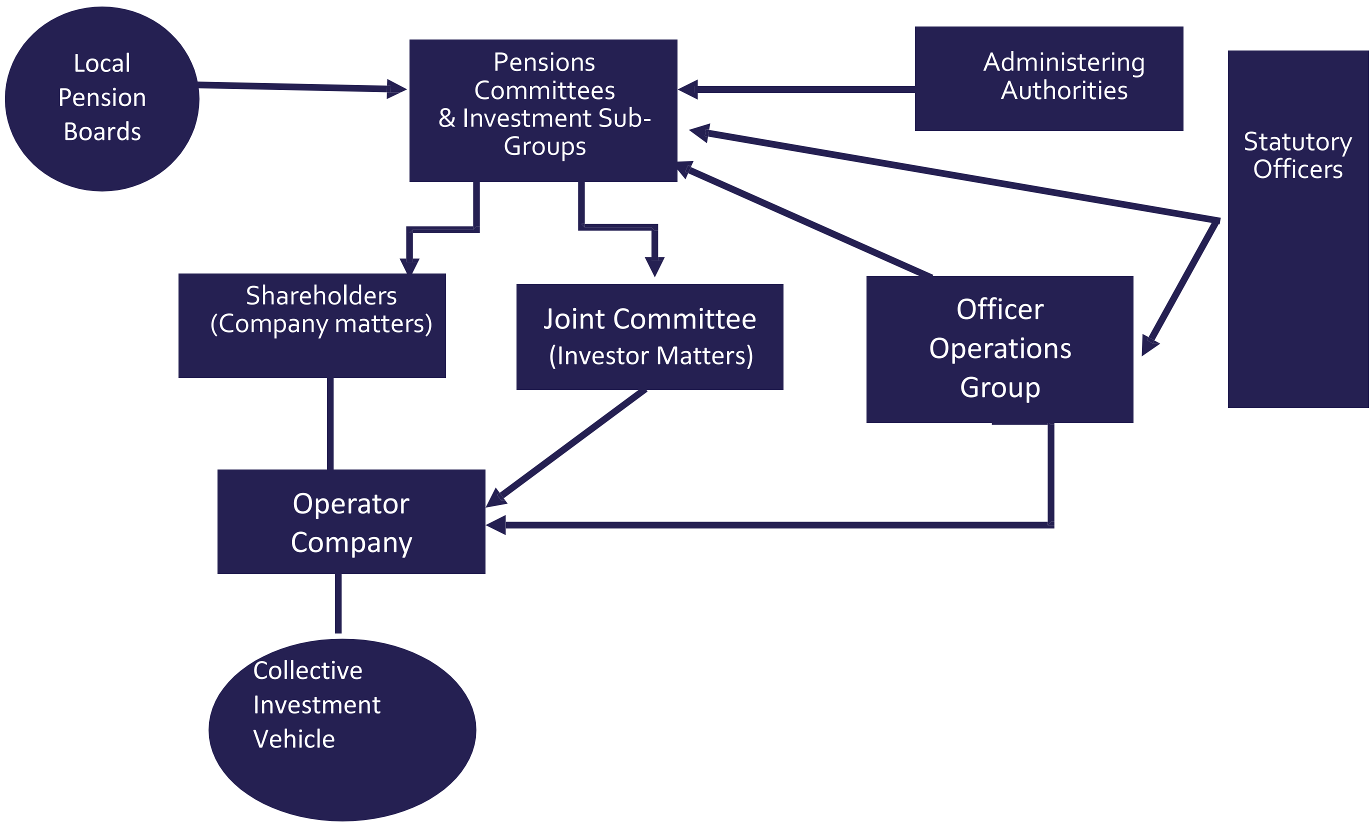

4.18 The focus of the Joint Committee will be on ‘investor’ issues of the Partner Funds (as distinct from shareholder issues). Investor rights relate to the investment in BCPP Ltd as governed by legal documents for each investment e.g. constitutive deed, application form, key investor information, prospectus and FCA handbook of rules and guidance. Investor rights cover such matters as the right to withdraw from the investments, investor reporting (including frequency and content) and investor voting rights.

4.19 The Joint Committee will formally be established by all of the Partner Funds signing an Inter-Authority Agreement. This Agreement sets out the role, Terms of Reference and Constitution of the Committee. It also establishes an Officer Operations Group drawn from officers of administering authorities of the Pool to support the working of the Joint Committee with technical advice, as well as a secretariat to provide administrative support.

4.20 The Inter-Authority Agreement also provides for one of the Partner Funds to act as Host Authority. In particular, the Authority that acts as Host Authority will be responsible for entering into contracts on behalf of the Joint Committee. This is necessary because the Joint Committee has no separate legal identity. In recognition of the fact that the Host Authority will take on liabilities and risk on behalf of all the Partner Funds, the Inter-Authority Agreement contains indemnity clauses so that this liability and risk is shared. There is no expectation that the Joint Committee will enter into contracts to any significant extent but it may, for example, need to commission specialist advice on occasion.

Teckal

4.21 As described in paragraph 4.2, the most appropriate way forward is considered to be the creation of a wholly owned Teckal compliant company, operating a fully regulated structure under the FCA.

4.22 To ensure the Partner Funds can transfer their assets to and enter into contracts with BCPP Ltd without some form of competitive procurement (which seems wholly inappropriate given the purpose of the Pool) it will need to be 'Teckal compliant' i.e. adhere to Regulation 12 of the Public Contracts Regulations 2015. As each administrative authority is a contracting authority for the purpose of the 2015 Regulations adherence to these public procurement rules is the individual responsibility of each of the individual Authorities, not the new company.

4.23 Under Regulation 12 of the Public Contracts Regulations 2015, contracts entered into between a local authority and a Teckal compliant company are exempt from the application of public procurement law where the following conditions are met:

i. the contracting authority exercises control over the Teckal compliant company (either solely or jointly with other authorities) which is similar to that which it exercises over its own departments;

ii. more than 80% of the activities carried out by the Teckal company are carried out in the performance of tasks entrusted to it by the contracting authority or other bodies which the contracting authority controls; and

iii. the Teckal compliant company is not directly privately owned.

4.24 It is through the exercise of a number of shareholder reserved matters that the Authorities demonstrate a controlling influence and therefore Teckal compliance. This element of the operation of the company is governed by a Shareholders' Agreement which regulates the relationship between the Partner Funds as shareholders and between the Partner Funds collectively and the company. The Authority, as administering authority, is being asked to authorise the South Yorkshire Pension Fund to enter into this Shareholders' Agreement.

4.25 As BCPP Ltd will be a Teckal compliant company there will be many more matters reserved to the control of the shareholders acting collectively than would be the case in a normal company.

4.26 The exercise of these rights will be governed by the Articles of Association of the company and company law. This means that different voting arrangements from 75% majority to unanimity can be attached to different types of decisions on reserved matters.

Shareholders' Agreement

4.27 Each shareholding Authority will subscribe for 1 Class 'A' voting share (nominal value £1) with equal voting rights i.e. 12 shareholders with one vote each. There will also be a requirement for regulatory share capital in the form of non-voting Class 'B' shares as explained in paragraphs 4.54 to 4.56. The Shareholders' Agreement (introduced in paragraph 4.24) identifies a number of shareholder reserved matters which can only be decided with the approval of either all of the shareholders (unanimous reserved matters) or a majority (defined as 75%) of the shareholders (shareholder majority reserved matters). The main reserved matters are listed below and it is through these reserved decisions in particular that the Partner Funds (administering authorities) will exercise a decisive influence over the strategic direction of BCPP Ltd.

4.28 The role of the administering authorities as shareholders will be to provide oversight and control of the operation of the Company and will include:

- approval of the Annual Business plan
- approval of budgets, fee models, the overall cost base and cost apportionment
- appointment and removal of directors, including non-executive directors
- approval of the senior executive remuneration policy
- approval of significant capital requirements
- approval of significant transactions (e.g. mergers and acquisitions)
- approval of any new entrants to BCPP and the terms of entry
- determination of exit terms, including notice period and exit treatment
- approval of conflict of interest policy
- review of the risk register
- appointment of the auditor

4.29 Other key provisions of the Shareholders' Agreement are:

- the Agreement will be governed by a number of shared objectives that are described in Schedule 2 of the Shareholders' Agreement. These include that the administering authorities will pool their assets through BCPP Ltd to meet the administering authorities' pooling obligations

- any administering authority may withdraw on giving not less than 12 months' notice to expire on 31 March in any year. On withdrawal, the exiting shareholder must pay outstanding sums owed to the company

- on withdrawal (i.e full withdrawal from the Pool and not withdrawal of part funds under management), the company will buy back the shares of an exiting shareholder (subject to having the necessary capital) and the remaining shareholders will be required to adjust the regulatory capital caused by the withdrawal

- profits of BCPP Ltd lawfully available for distribution (after prudent consideration of the amounts required to be retained by the company) will first be used to reduce the Operating Fee (see paragraph 4.52) and then will be available for distribution to the shareholders unless the shareholders agree otherwise – further details to be worked up

- shareholders will use best endeavours to resolve disputes between themselves. If not resolved, they will be escalated with provision, ultimately, for binding arbitration

- if a shareholder is in material breach of the Shareholders' Agreement and the breach is not remedied, the shareholder in breach is required to sell it's A share back to the company and the B shares will be bought by the company (subject to having the necessary capital)

- the Shareholders' Agreement may be terminated if all shareholders agree in writing, the company is wound up, such number of shareholders withdraw that the remaining shareholders inform BCPP Ltd that they are unable or unwilling to maintain the company's regulatory capital requirements, or the Board determine that the business of BCPP Ltd can no longer be carried on lawfully

- the company will provide information to the shareholders including quarterly financial and performance reports, annual accounts and an annual report of progress against the Strategic Plan

Articles of Association

4.30 In addition to the Shareholders' Agreement the other main document governing the operation of BCPP Limited will be the Articles of Association. The main provisions of this document of which Members should be aware are set out below.

4.31 It is proposed that the Board of Directors will comprise of 3 Executive Directors and 3 Non-Executive Directors, one of which will be the Chairman. Each of these directors are required to be noted on the FCA application with some required to be designated with approved person status. Following accepted good governance, and to protect shareholder interests, it is proposed that the Chairman has the casting vote to ensure the non-executive Directors carry the vote, should this be required.

4.32 No shareholder may transfer its shares (Class A or Class B) to any other person save to the company as part of a redemption of shares (for example on a withdrawal by that shareholder).

4.33 Meetings will be held in private, and once established there will be the minimum requirement for an annual shareholder meeting. However, as each shareholder will have more than 5% of the total shareholding they can call a meeting at any time (given the required notice period).

4.34 Subject to approval from the respective administering authorities, BCPP Limited will be owned by the 12 local authorities as administering authorities within the investment pool. Each authority will have 1 Class A voting share with equal voting rights. It should be noted that South Yorkshire Passenger Transport Pension Fund will have no shareholding or voting rights in the new company. Currently operational control is delegated to South Yorkshire Pensions Authority.

4.35 Given that the Authority's involvement in the company is driven by the pooling requirements affecting the Pension Fund legal advice is that it is proposed that this share is held in the name of SYPF.

4.36 The duties and responsibilities of a shareholder mean that each Partner Fund has protection as it will have limited liability (subject to regulatory capital requirements).

4.37 The shareholder representative will be exercising the Authority's rights in accordance with instructions rather than have any delegated authority. Appropriate support will be provided to ensure any matters of process, governance or conflict are appropriately addressed.

4.38 Generally as a shareholder there will be no involvement in day to day company operational matters, which are managed by the Board of Directors. The exercise and conduct of business by the Board is set out in Articles of Association, which will include consulting on key strategic and operational matters.

The Authority's relationship with the Sheffield City Region Combined Authority (SCRCA) and the South Yorkshire Passenger Transport Pension Fund (SYPTPF).

4.39 As referred to above this Authority currently manages the Passenger Transport Pension Fund through a delegated arrangement with the SCRCA (the responsible administering authority). SCRCA wishes to continue with this approach to invest the SYPTPF in the BCPP Pool, but does not intend to become a shareholder in BCPP Limited. The reason for this is that it would not be cost-effective for SCRCA to incur the associated costs of a shareholding nor to subscribe for the regulatory capital of BCPP Limited. External legal advice has been obtained which supports the intended manner of operation. Whilst there will need to be amendments to the contractual arrangements between SCRCA and SYPA as a result of the transfer of investment management services (and investment advisory services) to BCPP Limited, it is not considered that there are any obstacles to SCRCA's participation in BCPP under a delegated arrangement with this Authority. SCRCA can take advantage of the financial services exemption in the Public Contracts Regulations 2015, to avoid the need to engage in a procurement exercise in order to invest in BCPP. It is considered that SCRCA would be treated in no less advantageous way than any other investor in BCPP, notwithstanding the fact that it is not going to be a shareholder in BCPP Limited. This will mean building protections into the

Authorised Contractual Scheme's deed.

4.40 Members will be aware from previous reports that officers are requesting permission to transfer responsibility for the role of administering authority for the SYPTPF to this Authority. An initial response from the Minister indicates a positive reaction to this proposal. If implemented, the transfer to SYPA would of course remove any issue about the need for separate arrangements for the SYPTF as it would become an integral part of the main SYPA fund.

4.41 There are also proposals from 'First Bus', the sole employer relevant to the SYPTPF, who have requested the Minister to consider consolidating all 'First Bus' LGPS funds under one 'host' administering authority- the Greater Manchester Pension Fund.

4.42 Thus there are two routes by which the SYPTPF investment management function may be transferred. Either would remove the requirement for a delegated arrangement with this Authority. However the timing and outcome of those proposals is not yet determined. Therefore the default position, operating under delegated arrangements with this Authority is covered lest the position be not formally resolved ahead of pooling becoming operational from 1 April 2018.

Operational Arrangements

4.43 The aim of the BCPP pooling proposal is to meet the regulatory requirements to pool assets by collectively investing and to:

- deliver savings to the Partner Funds
- improve governance by moving the asset management into a financially regulated entity
- build capability and capacity to invest in infrastructure and other asset classes to improve the risk adjusted returns of partner Funds
- through collaboration and consolidation of resource improve technical specialisms and resilience across Partner Funds
- use the scale of the pool to more effectively utilise shareholder voting rights to drive corporate governance change in the companies the Funds invest in

4.44 BCPP Ltd will be responsible for managing investments in line with the investment strategy and asset allocation requirements as instructed by SYPA and the other Partner Funds. Instead of overseeing a largely internally managed fund, the Authority will oversee a range of sub-funds managed by BCPP Ltd.

4.45 The Authority will retain responsibility for setting the investment strategy and the asset allocation of the Fund. Other activity such as valuations, the setting of employer contributions and pensions administration will also remain at the local level.

4.46 The key change is therefore that responsibility for the appointment, monitoring and termination of investment managers will pass from the Authority to BCPP Ltd.

4.47 It is generally accepted that over 80% of investment performance is driven by the investment strategy and asset allocation, rather than manager selection.

4.48 Changes are expected be actioned over an appropriate time to comply with pooling requirements, to coordinate with other Partner Funds to achieve optimal improvements in performance and costs. It is expected that by becoming a shareholder in BCPP that SYPA will give a commitment to using the Pool for investments and it meets the need to demonstrate an approach to pooling as required by the Secretary of State. However, the actual decision of how much to invest in funds managed by the BCPP will be done by the Authority at a later date. This issue will therefore be re-visited at a later stage when individual Pension Funds are asked to contract with the BCPP. It is expected that all BCPP Pension Funds will work to ensure that the Pool has a good understanding of its clients' investment wishes and needs thereby providing confidence along this journey.

4.49 There will inevitably need to be some compromises in the arrangements as the Authority will be one voice amongst twelve. For example, in order to achieve benefits through economies of scale the number of sub-funds will need to be appropriate, i.e. not too many to lose these benefits but not too few to unduly restrict the asset allocation requirements of Partner Funds. To ensure the range of sub-funds meets SYPA's needs as far as possible, feedback has been provided by both Officers of the Authority and the Authority's Advisers.

4.50 BCPP Ltd will be responsible for the actions of its own internal investment teams and hiring/firing external investment managers with the objective of ensuring the performance of each of the sub-funds meets the requirements of the Partner Funds.

4.51 As an FCA regulated entity, BCPP Ltd will be required to operate under the Financial Services and Markets Act 2000 (FCA compliance) and the Corporate Governance Code, as well as local authority regulations.

4.52 BCPP Ltd will receive an Operator Fee from the administering authorities, which is intended to cover the Company's operating costs. The exact amount and the method of calculating the Fee have not yet been determined but will be on an equitable basis across the 12 participating shareholders.

4.53 FCA regulated businesses are required to hold regulatory capital designed to support the solvency of the company. There are detailed rules governing the minimum amount of regulatory capital required. The maximum regulatory capital that can be required is €10m and is based on assets under management. BCPP Ltd is expected to be at this maximum. It is proposed that this requirement is funded equally between the 12 administering authorities. The South Yorkshire Pension Fund's contribution is therefore likely to be in the region of £725,000 based on the Euro exchange rate at the time of writing of this report.

4.54 Contributions to regulatory capital can be made in one of two ways – either by way of equity (the purchase of shares in the company) or debt (by lending the money to the company). The Shareholders' Agreement proposes that the regulatory capital is provided by all of the administering authorities by them acquiring a class of shares in the company (Class B shares) to the value of their contribution. There are two main reasons for this.

4.55 The first is that the Pension Fund that accepts as its members, the employees of BCPP Ltd, through an admission agreement, will not be allowed in law to make its contribution by way of a loan. The second is that because loans rank higher than equity on an insolvency, then in this very unlikely event, one or more Partner Funds would have priority over the others.

4.56 As these arrangements are solely for the purpose of pooling Pension Fund assets, which are attributable to the Fund's employers, it is proposed that the contribution is made from the participating Pension Funds rather than Authority funds. This contribution will be held by BCPP Ltd and will earn a suitable rate of interest by way of dividend.

5.0 CONCLUSIONS

5.1 Following the Government's approval in December 2016 for BCPP to go ahead with pooling arrangements, each of the 12 administering authorities within the pool (that are to acquire a shareholding) will need to decide whether or not to formally commit to BCPP.

5.2 In anticipation of this, these authorities have been reviewing their respective governance arrangements and determining the necessary changes. This report seeks the approval of the Authority to commit to the new arrangements.

5.3 It is anticipated that the last of the 12 administering authorities meetings will be on 21 March 2017 and that the necessary documents will be executed shortly thereafter.

5.4 The administering authorities forming the BCPP pool will then need to progress these proposals and set up the regulated asset management company BCPP Ltd, ensure its FCA registration, appoint staff (including TUPE transfer where appropriate), find a suitable location to operate from, and implement the other necessary arrangements to facilitate pooling.

6. Implications

6.1 Financial

The financial implications are addressed in the report. Due to the relatively low existing internal management costs, SYPA faces a share of set up costs and a 'pool' share of operating costs which will initially be higher than our base costs in the first years of operation. Payback would be achieved in the best case scenario by 2020 and in the worst case scenario by 2030. The pooling of Local Government Pension Fund assets will have no immediate impact on employer or employee contribution rates or the pension entitlement of members of the fund (current employees, previous employees who are yet to draw their pension or pensioners). However, pooling aims to deliver savings at national and pool level to support longer term stability in contribution rates and overall scheme viability. The South Yorkshire Pension Fund will hold one class 'A' voting shareholding at a nominal value of £1. The Fund will also hold class 'B' shares via a contribution to regulatory capital referred to in paragraph 4.53; likely to be in the region of £725,000 based on the Euro exchange rate time of writing. These will be an investment from the fund and earn a suitable rate of interest.

6.2 Legal

Legal implications are addressed in the report which recommends that the Clerk and the S151 officer in consultation with the Interim Fund Director be authorised to finalise the approval and execution, where required, of all legal documents necessary to give effect to the decisions in the report. The Authority's Constitution will need to be revised to reflect the new Shareholder and Joint Committee arrangements implicit with the BCPP pooling arrangements.

6.21 Further to paragraph 5.4 above it is expected that TUPE provisions will apply involving all investment management staff and possibly 'back office' staff who support the investment function. TUPE arrangements will be subject to legal and HR advice and are not required to be determined finally until closer to the transfer date.

6.3 Diversity

There are no diversity implications.

6.4 Risk

Pooling presents opportunities to reduce long term net costs and to increase capacity and capability including potential for wider investment opportunities. However, there will be higher costs in operating a FCA regulated body and success cannot be guaranteed. The Authority has considered the best option to be to sign up to the BCPP. Other options would have meant either joining another Pool or not to join any Pool and risk the Secretary of State exercising his powers of direction.

***REPORT AUTHORS**:* *Diana Terris/ Frances Foster / Steve Barrett*
Post: Clerk / Treasurer / Interim Fund Director

OFFICERS RESPONSIBLE:

Joanne Needham
Senior Legal Officer Tel 773027
Steve Barrett
Interim Fund Director Tel 772887

BACKGROUND PAPERS

Final pooling submission reported to the Authority 30.6.16 with supporting appendices. Various background legal papers referred to in the report, held by the Authority.

Appendix A

Department for Communities and Local Government

Marcus Jones MP
Minister for Local Government

Department for Communities and Local Government
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2 Marsham Street
London SW1P 4DF

Tel: 0303 444 3460
Fax: 020 7828 4903
E-Mail: marcus.jones@communities.gsi.gov.uk

www.gov.uk/dclg

Cllr Denise Le Gal, Surrey
Cllr Sue Ellis, South Yorkshire
Cllr Doug McMurdo, Bedfordshire

On behalf of the participating funds listed at end

12 DEC 2016

Dear Councillors,

BORDER TO COAST PENSION PARTNERSHIP (BCPP): FINAL PROPOSAL

I would like to thank you and all the authorities involved in the proposed BCPP pool for your final proposal, which we discussed at our meeting on 24 November. I was glad to note your commitment to work together to secure benefits for all participating funds, building on your existing internal expertise. I appreciate the hard work and commitment from elected members and officers which the proposal represents, and welcome your determination to deliver on time.

It is now coming up to a year since we set the framework for reform of the investment function of the local government pension scheme, through the guidance and criteria for pooling published in November 2015. I am pleased that authorities across the scheme have responded to the challenge and come together to form partnerships of their own choosing based on a shared view of investment strategy. We do not underestimate the scale of the changes required, but the Government remains committed to pooling in order to deliver reduced costs while maintaining performance as well as to develop capacity and capability for greater investment in infrastructure.

I appreciate that overall costs are likely to rise in the early years, and that salaries are likely to be high for key senior roles within pool operators. But I consider that this is a price worth paying in order to achieve substantial savings, already estimated by the pools at £1-2 billion by 2033 or up to £200 million pa in the medium term. I am confident that as the reform beds in, there are further savings to be achieved.

I therefore expect every administering authority in England and Wales to participate in a pool. I also expect authorities to place all assets in their chosen pool, unless there is a strong value for money case for delay, taking into account the potential benefits across the pool, and to delegate investment manager selection to the pool. In addition my officials will be consulting with all pools on the potential to work with the Local Pensions Partnership to help ensure it delivers the full benefits of scale.

I must also underline that all bodies effectively undertaking collective investments will need to be authorised at the appropriate level by the Financial Conduct Authority (FCA). I appreciate the significant costs and effort required to secure authorisation. However, given the scale and complexity of the pools, and the substantial public funds involved, scheme members and the local taxpayers who underpin the scheme have a right to expect the high level of assurance which is provided by FCA authorisation. Individual funds will continue to be responsible for their investment strategies and asset allocation and will continue to require high standards of governance.

On the basis set out above I am pleased to confirm that I am content for you to proceed as set out in your final proposal. I hope you will continue to work closely with my officials, including on the concerns you raised relating to the Markets in Financial Instruments Directive II (MiFIDII).

Turning to the future, I appreciate there has been some delay this autumn, but I have no plans to extend the deadline for pools to become operational in April 2018. I will be reviewing progress of all the pools in spring and autumn 2017 and will expect to see a core team in place in spring 2017 and an application for Financial Conduct Authority authorisation, where not already in place, in autumn 2017. I look forward to seeing more detailed plans for delivering savings, and increasing your infrastructure investment in line with your stated ambition. I will also expect detailed plans for reporting, including on fees and net performance in each listed asset class against an index, standardised across the sector.

Yours Sincerely,

MARCUS JONES MP

Participating funds:
Bedfordshire
Cumbria
Durham
East Riding
Lincolnshire
North Yorkshire
Northumberland
South Yorkshire
South Yorkshire Integrated Transport Authority
Surrey Teesside
Tyne and Wear
Warwickshire

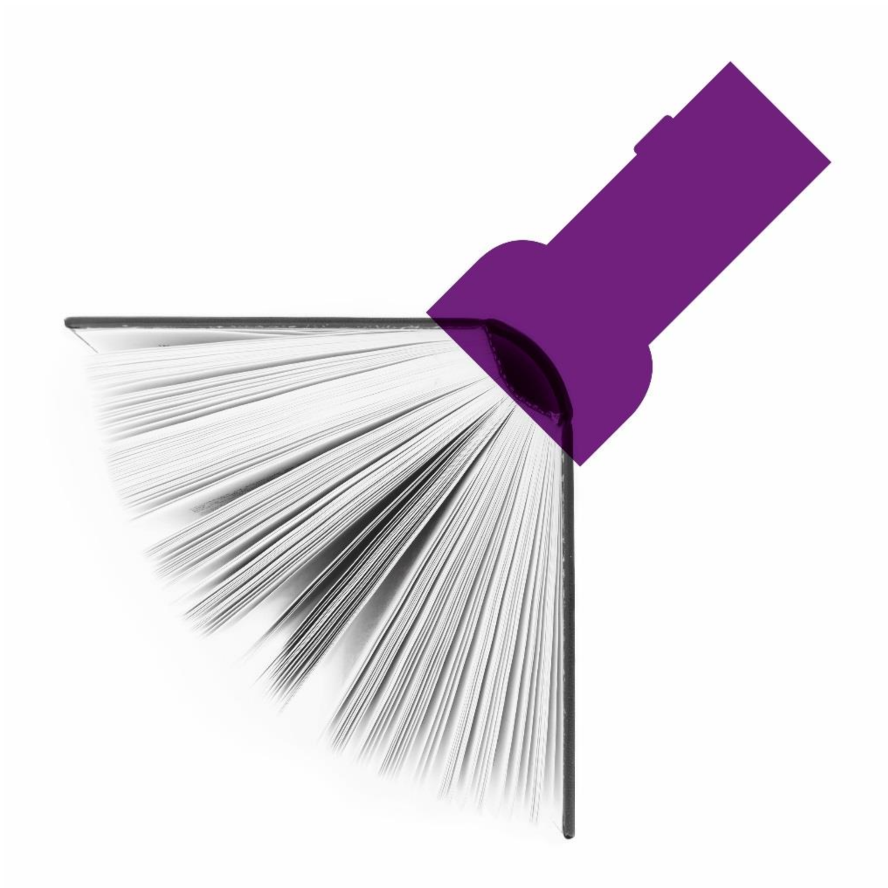
EVERSHEDS

Appendix B

Border to Coast Pensions Partnership

Summary of Pool Governance Structure

25 JANUARY 2017



bir_emp\2272627\10
25 January 2017

Border to Coast Pensions Partnership
Summary of Pool Governance Structure

This note has been prepared solely for the administering authorities participating in the Border to Coast Pensions Partnership Pool ("**BCPP Pool**") to provide a summary explanation of the structure of the BCPP Pool governance arrangements and may be circulated by authorities when seeking approval for the structure. We do not accept liability to any other person other than the authorities in respect of this advice note.

The BCPP Pool is the collective term for the range of collective investment vehicles (including an Authorised Contractual Scheme ("**ACS**")) that may eventually be used to allow the administering authorities to pool their respective investments. The BCPP Pool will be run and operated by Border to Coast Pensions Partnership Limited ("**the Company**").

This note is intended to be a summary of the BCPP Pool governance structure and the detailed and definitive provisions of the governance structure can be found in the following core documents:

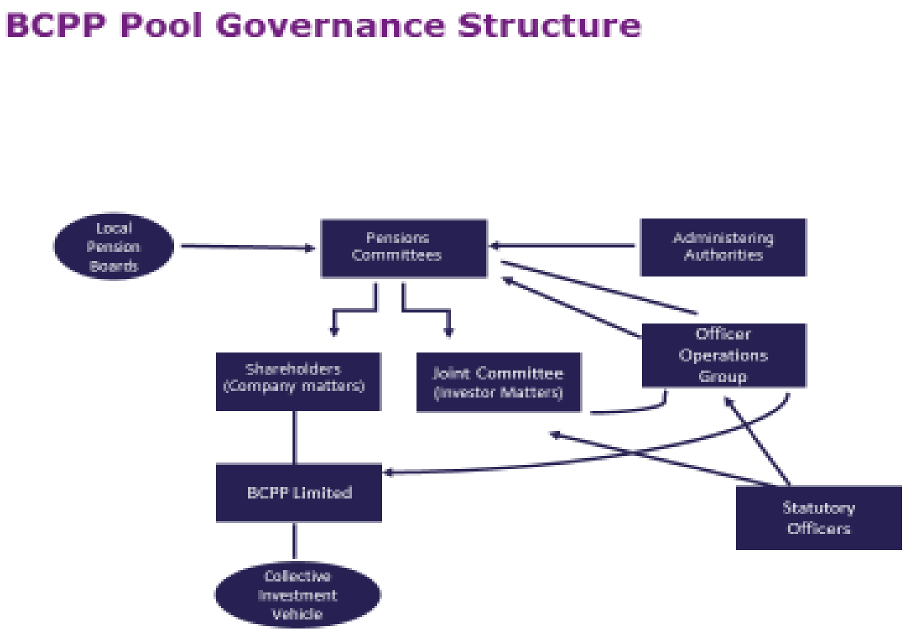
- the Company's Articles of Association,
- the Shareholders' Agreement; and
- the Inter Authority Agreement (containing the BCPP Joint Committee's Terms of Reference and Constitution and the Terms of Reference for the Officer Operations Group).

1. **Background**

1.1 We have been asked to provide a high level summary of the BCPP Pool governance structure, in particular setting out the roles of the structure's key bodies, including the Company, the Shareholder Representatives, the BCPP Joint Committee, the Officer Operations Group and the Statutory Officers.

1.2 Please note that each administering authority still retains its core duties and responsibilities as an LGPS administering authority in respect of its own fund. Administering authorities may need to review their current pension committee structures to see if they will need changing once the BCPP Pool is established and/or to deal with the transition period whilst assets are being moved over to the Pool.

In broad terms the governance structure is summarised in the following diagram:



Border to Coast Pensions Partnership Limited

1.3 The Company will be a private company limited by shares. The Company will be incorporated in England and Wales under the Companies Act 2006 and will have a registered office.

1.4 The Company's constitution is contained in its Articles of Association which defines the responsibilities of the directors, the kind of business to be undertaken, and the means, along with the Shareholders' Agreement, by which the shareholders exert control over the Company and its board of directors.

1.5 The Company will have twelve shareholders being, Bedford Borough Council, Cumbria County Council, Durham County Council, The East Riding of Yorkshire Council, Lincolnshire County Council, Middlesbrough Borough Council, Northumberland County Council, North Yorkshire County Council, The Council of the Borough of South Tyneside, South Yorkshire Pensions Authority (acting on behalf of itself and the Sheffield City Region Combined Authority), Surrey County Council and Warwickshire County Council. As such it will be a "controlled company" within the meaning of the Local Authorities (Companies) Order 1995.

1.6 The Company has been formed to act as an alternative investment fund manager to run and operate one or more collective investment vehicles (including an ACS) to allow the administering authorities to pool their respective investments. In due course the Company will become authorised by the Financial Conduct Authority. Unlike the Company, the ACS itself is not a separate legal entity but is a contractual arrangement.

1.7 The Company will be run by a board of directors which will comprise of a non-executive chair and two other non-executive directors and up to three executive directors. The directors are appointed (and can be removed) by the agreement of the administering authorities as shareholders.

1.8 The board of directors will meet at least four times a year. The directors have to produce an annual business plan including an annual budget for approval by all of the shareholders.

2. **Shareholder Representatives**

2.1 Company shareholder meetings will be the forum for dealing with the shareholder rights of the twelve administering authorities as individual shareholders in the Company. This is distinct from the Company's board of directors and also from the BCPP Joint Committee (see below).

2.2 At Company shareholder meetings each administering authority as shareholder exercises one vote. Certain major decisions (e.g. changes to the Articles of Association, rights in shares, buy-back of shares etc) which would have an effect on the shareholders' rights are usually required, through the Companies Act 2006, to be approved by the shareholders at a general meeting called by the directors of the Company.

2.3 The Shareholders' Agreement records the terms of the administering authorities' relationship with each other as shareholders and regulates certain aspects of the affairs and their dealings with the Company. The Agreement provides the framework for the administering authorities to act in a collaborative and coordinated way. To the extent that the Shareholders' Agreement conflicts with the terms of the Articles of Association then the Shareholders' Agreement prevails and the Articles may need to be amended accordingly.

2.4 In addition, the Shareholders' Agreement specifies the voting levels for various shareholder decisions. From a procurement perspective, it is import to retain sufficient control over the Company to address 'Teckal' issues.

2.5 In particular, the Shareholders' Agreement provides that certain key strategic shareholder decisions require either 100% or 75% approval of all the shareholders (as appropriate) before they can be approved at a shareholders' meeting. These are known as 'reserved matters' and are set out in the Shareholders' Agreement.

2.6 It is intended that shareholders' meetings will be held at least annually (which is the minimum legal requirement) but may occur more often as required. Quorum for a shareholders' meeting will be nine unless a matter requires 100% approval (see below) when all shareholders will need to attend.

2.7 Decisions requiring 100% approval include (without limitation):

2.7.1 approving the Company's annual business plan including its annual budget;

2.7.2 initial appointment of directors of the Company (with subsequent removal and appointments requiring 75% approval);

2.7.3 admitting any new LGPS administering authority as a new shareholder of the Company or as a new investor in the BCPP Pool;

2.7.4 extending the activities of the Company outside the scope of its business;

2.7.5 closing down any operation of the Company's business;

2.7.6 altering any of the provisions of the Articles of Association or any of the rights attaching to the shares;

2.7.7 allotting, reducing or cancelling any of the Company's share capital; and

2.7.8 passing a resolution to wind up the Company.

2.8 Company shareholder meetings are subject to the requirements of the Company's Articles of Association, the terms of the Shareholders' Agreement and general company law. They are therefore subject to different rules to a BCPP Joint Committee meeting (for example in relation to areas such as access to information and voting rules) and for this reason Company shareholder meetings need to be kept separate from BCPP Joint Committee meetings.

2.9 Because an administering authority cannot physically appear at a Company shareholders' meeting, it needs to appoint a person to attend the meetings on its behalf and to cast its vote or state its view. Such a person is representing the authority and acting on instructions from the authority. It does not therefore matter legally whether that person is a member or an officer since no delegated powers are being exercised.

2.10 Any individual attending in this role needs to be briefed and instructed before attendance and to report back after each Company shareholder meeting. In practice, if something occurs at the meeting itself which requires a shareholder decision or view then the representative, whether a member or an officer, may be required to exercise some degree of discretion. That exercise of discretion should, so far as possible, reflect the known views of the authority.

2.11 The representative, if an elected member, may be the same individual that represents the administering authority on the BCPP Joint Committee. Ordinarily the interests of each authority as a shareholder in the Company ought to be aligned with the interests of the authority in its capacity as an investor/customer in the BCPP Pool, so conflicts of interest are unlikely to arise. However, if they do arise, having different individuals to represent the authority at the Company shareholders' meetings and on the BCPP Joint Committee may help to reduce the potential for conflicts of interest between views as a shareholder and views as an investor/customer and may assist in retaining clarity of the governance functions being carried out. However, this is a matter for each administering authority to decide and should common appointments be made then an appropriate conflicts policy will be required.

3. BCPP Joint Committee

3.1 The BCPP Joint Committee established under the Local Government Act 1972 will be the forum for discussing common investor/customer issues relating to the Company and the ACS.

3.2 Each administering authority, in addition to being a shareholder in the Company, will be an individual investor in the ACS (and any other pooled vehicles managed by the Company) and therefore each authority will have investor rights afforded by its contractual agreement(s) with the Company.

3.3 For example, in the case of the ACS, the contractual relationship between an administering authority and the Company is contained in a suite of key investor documents. This is made up of the constitutional deed, application form, key investor information, prospectus and FCA handbook of rules and guidance. The administering authority's investor rights are embedded in those documents and cover matters including the right to withdraw from the pooled vehicle, investor reporting (including frequency and content), obligations of the ACS manager to the investors and investor voting rights (for example, on proposed changes to the pooled vehicle).

3.4 There may be other arrangements creating other contractual relationships between an administering authority and the Company, for example equivalent documentation relating to other collective investment vehicles that the Company may operate and/or asset management agreements where the Company is managing assets that remain under the direct ownership of an administering authority.

3.5 The administering authorities are not delegating their key strategic asset allocation or other investment decision making powers or investor rights to the BCPP Joint Committee. Instead these will be retained for exercise by the individual administering authorities through their pension committees in the normal way, subject to consideration of any recommendations the BCPP Joint Committee may make.

3.6 The Terms of Reference and Constitution of the BCPP Joint Committee are set out in the Inter Authority Agreement. It is expected the BCPP Joint Committee will meet at least once a year (with support from the Officer Operations Group) to undertake the activities set out in its Terms of Reference. The activities differ during the set-up phase of the BCPP Pool and when the Pool becomes operational.

3.7 The BCPP Joint Committee would not normally make binding decisions on matters covered in its Terms of Reference but would make recommendations to each administering authority for each authority to decide. However the Constitution of the Joint Committee does allow for it to make decisions on matters delegated to it by the administering authorities should they wish to do so.

3.8 Where any issues do need to be resolved by the BCPP Joint Committee, these will be decided by a majority vote of those members present. Each administering authority represented on the Joint Committee exercises one vote.

3.9 Each authority will be represented on the BCPP Joint Committee by one of its elected members. In accordance with local government law principles, members cannot be mandated how to vote and therefore must use their own judgement when considering Joint Committee business. However, the views of the member's authority will be a factor in any decision.

3.10 Given the restricted the role of the BCPP Joint Committee, alternative and less formal arrangements to a joint committee structure could have been considered. However, a joint committee structure established under the Local Government Act 1972 provides a tried and tested structure that delivers a clear and transparent separation of shareholder matters and investor/customer matters.

4. **Officer Operations Group**

4.1 The Group will be made up of an officer from each administering authority (such as a pension fund officer). The Group is not a legal entity but a working group of officers. The Terms of Reference for the Group are set out in the Inter Authority Agreement confirming how the Group will be comprised, operate and be resourced and funded.

4.2 As this is a working group of officers, no statutory functions can be delegated to the Group. The role of the Group is to:

4.2.1 work with the BCPP Joint Committee to support the functions of the BCPP Joint Committee as set out in the BCPP Joint Committee's Terms of Reference;

4.2.2 provide a central resource for advice, assistance, guidance and support for the BCPP Joint Committee (and also if requested for the administering authorities as a collective group of investors in the BCPP Pool);

4.2.3 provide technical support at meetings of the BCPP Joint Committee, for example by proving and delivering performance management reports for the Joint Committee on all aspects relating to the provision of services by the Company; and

4.2.4 act as a conduit for the BCPP Joint Committee to communicate back to the respective authorities and/or direct to the Company as appropriate.

5. **Statutory Officers**

5.1 In addition to the Officer Operations Group, Statutory Officers e.g. the section 151 officer and monitoring officer from each administering authority will individually and collectively support the administering authorities as shareholders, the BCPP Joint Committee and the Officer Operations Group.

5.2 It is not intended that there be a formal Statutory Officers Group but the relevant officers will exercise their statutory functions individually and/or collectively as the need arises.

Eversheds LLP

25 January 2017

Privileged and confidential

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SOUTH YORKSHIRE PENSIONS AUTHORITY

16 MARCH 2017

Report of the Treasurer and the Interim Fund Director

TREASURY MANAGEMENT STRATEGY STATEMENT 2017/2018

1) Purpose of the report

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

----

2) **Recommendation**

It is recommended that the Authority:-

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

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

c) **in accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 approves the Minimum Revenue Provision Policy Statement (MRP) outlined in Appendix III; and**

d) **notes the list of counterparties used in Appendix IV; and**

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

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3) Background information

3.1 Local authority treasury management activities are governed by Section 12 of Part I, Chapter I of the Local Government Act 2003 ("the Act") which provides that a local authority may invest "for any purposes relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs". Pursuant to section 15 of the Act, in carrying out its functions, a local authority is required to have regard to relevant guidance and regulations issued by the Secretary of State and under the supporting Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to "have regard" to the Chartered Institute of Public Finance and Accounting (CIPFA) publication "Treasury Management in the Public

Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Code"). The Code was updated in November 2011 and covers the whole range of treasury management issues, including the fundamental principles for making and managing investments and requires local authorities to prepare an annual Treasury Management Strategy Statement ("TMSS"). Under the Code treasury management is defined as:

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

3.2 Amongst the primary requirements of the Code are the need to establish and maintain a Treasury Management Strategy Statement (TMSS) which sets out the policies and objectives of the Authority's treasury management activities and sets out how they will be achieved; approval of the Annual Investment Strategy (AIS); regular reporting on activities during the year and establishment of the delegation by the Authority of its responsibilities to other bodies and its officers. This report embodies the principles of the CIPFA Code and the Act and hence there is no separate TMSS published. For this Authority the delegated scrutinising body is the Corporate Planning and Governance Board and relevant monitoring reports are presented thereto.

3.3 The Authority manages its cash itself. The customised benchmark allocation for cash remains at 1.5% with a tactical range of 0%-10%. Some cash needs to be held in order to service creditors etc., pension payroll and potential currency hedging requirements. In absolute terms the amount of cash held at any one time might run to tens of millions of pounds but it is normally going to represent a relatively small percentage of total Fund assets. This is one reason why the CIPFA Code has not been universally adopted by Local Government Pension Scheme ("LGPS") administering authorities for the purposes of investing local authority pension funds. The specialised nature of pension fund monies does not lend itself easily to the Code: this is especially so since the funds themselves have no borrowing powers.

3.4 Apart from the occasional use of overdraft facilities the Authority has never utilised its borrowing powers granted under s1 of the Act. Nevertheless, the borrowing powers (i.e. in its own right and not on behalf of the Fund) are always reviewed annually and resolved upon separately by the Authority. The current governing legislation is the Act and the requirements are more fully referred to in section 4 below. Please note that the Act does not apply to pension funds, being controlled by a separate regulatory regime which is administered by the Department for Communities and Local Government (CLG).

3.5 Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016: SI 2016/946 ("the 2016 Regulations") an administering authority has a power to borrow on behalf of the LGPS fund it administers in certain circumstances (to pay benefits or meet investment commitments arising out of transition arrangements) subject to the sum borrowed and interest charged being repaid out of the fund within ninety days.

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

3.7 Members were invited to attend a training session on treasury management matters, provided by Capita Asset Services, in January 2017.

3.8 As referred to in 3.2 above this report embodies the principles of the CIPFA Code and the Act and there is therefore no separate TMSS produced. Other relevant information referred to in this report is attached under the four following appendices: Appendix I, which is the Annual Investment Strategy (AIS); Appendix II is the Affordable Borrowing Limit (ABL); Appendix III is the Minimum Revenue Provision Policy Statement (MRP). The list of counterparties used is shown in Appendix IV.

4) The Local Government Act 2003

4.1 Section 1 of the Act grants the Authority its borrowing powers.

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

4.3 Present guidance stresses the need for strategies to be prudent and defines a prudent investment policy as one having two objectives: achieving first of all security (protecting the capital sum from loss) and then liquidity (keeping the money readily available for expenditure when needed). The generation of investment income is distinct from these prudential objectives. In other words, the aim is to achieve an optimum return on investments commensurate with proper levels of security and liquidity. The Authority interprets this as meaning, firstly, security of capital; secondly, liquidity; thirdly, yield.

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

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

4.6 Because the Authority is a single purpose entity and not a local authority in the broader sense much of the Act does not apply directly to it. One of the grey areas appertains to the applicability of Part 1 of the Act, namely the prudential capital finance system called the prudential code for capital finance in local authorities. The key objectives of the "Prudential Code" are to ensure within a clear framework that:-

- capital investment plans of local authorities are affordable, prudent and sustainable

- treasury management decisions (notably borrowing for capital expenditure) are taken in a manner which supports affordability, prudence and sustainability

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

4.7 Capital expenditure is generally interpreted as being expenditure incurred on assets which have a life expectancy of more than one year e.g. buildings, equipment, software. The Authority will, on occasion, purchase assets on behalf of the Fund to be used by the Fund e.g. software licences. Therefore, the Authority needs to demonstrate that it has fulfilled the objectives of the Prudential Code. The Code sets out the indicators that must be used and factors to be taken into account but does not include suggested limits or ratios as these are for the local authority to set. The prudential indicators for the forthcoming year and following years must be set before the beginning of the year. They may be revised at any time, following due process, and must be reviewed and revised, if appropriate, for the current year when the prudential indicators are set for the following year.

4.8 As already stated, in the case of this Authority it is almost certain that all capital expenditure will be incurred on behalf of the Fund, will be recharged to the Fund and, hence, financed by the Fund. The Authority has no power to borrow in order to finance this expenditure.

4.9 Under the Prudential Code Capital Prudential Indicators need to be set and local authorities need to monitor them. These are largely based upon the borrowing requirements and affordability. Because in this Authority's instance the capital will be funded from revenue, most of the indicators are not relevant.

4.10 The Prudential Indicator for Capital Expenditure is a summary of the Authority's capital expenditure plans. These are normally limited to the purchase of software licences or lease agreements.

4.11 The Minimum Revenue Provision (MRP) is a statutory charge relating to the repayment of debt arising from borrowing made to finance capital expenditure. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 required that local authorities set MRP annually for approval before the start of the financial year to which the MRP relates and that it be "prudent". There is no formal definition of "prudent": therefore it's up to the individual authority to determine this as part of their policy and to reflect it in the MRP charge that it sets. As in the case of the Authority, if there is no capital expenditure funded from borrowing, then there will not be an MRP charge. Nevertheless, a policy statement must be published in accordance with the statutory regulations. (Appendix III).

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

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

4.14 The Authority's levy, issued in accordance with The Levying Bodies (General) Regulations 1992, finances the payment of statutory compensation and is not a function of capital financing decisions. The Authority does not enjoy a precept power.

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

4.16 The Authority receives this report and approves policy and strategy but delegates management of the policy to the Corporate Planning and Governance Board which receives regular updates upon implementation and monitoring. Day to day management is entrusted to the Treasurer.

4.17 The Treasurer is the designated s73 Officer under the Local Government Act 1985 and has overall responsibility for the execution and administration of treasury management decisions and is responsible for, amongst other matters:

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

submitting regular treasury management policy reports;

receiving and reviewing management information reports;

reviewing the performance of the treasury management function;

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

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

the appointment of external service providers.

4.18 Under the Code the Treasurer is required to ensure that Members and officers with responsibility for treasury management receive adequate and appropriate training. Members were invited to a course in January 2017 provided by Capita Asset Services. The training requirements of officers are regularly reviewed.

4.19 The Authority utilises the services of external brokers and credit rating research published by Capita Asset Services. The Authority, however, recognises that responsibility for treasury management decisions remains with the organisation and sole reliance will not be placed on the use of external services. The Authority will also use market data and market information gleaned from other sources such as stockbrokers, the Bank of England, media and government.

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

5) Business banking services

Lloyds Banking Group has been the Authority's "retail" bank since 1 April 2015.

6) Implications

6.1 Financial

There are no implications not otherwise mentioned within the report.

6.2 Legal

It is not thought that there are any legal implications.

6.3 Diversity

There are no diversity implications.

6.4 Risk

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

F Foster	Steve Barrett
Treasurer	Interim Fund Director

Officer responsible:
Bev Clarkson
Head of Finance

Contact telephone: 01226 772876

Background papers used in the preparation of this report are available for inspection at the offices of the South Yorkshire Pensions Authority in Barnsley
Other sources and references: Bevan Brittan; CIPFA; CLG; LGA; Capita Asset Services, Bank of England

APPENDIX I

SOUTH YORKSHIRE PENSIONS AUTHORITY

TREASURY MANAGEMENT: ANNUAL INVESTMENT STRATEGY

A) Policy Statement

1) Introduction

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

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

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

2) Treasury Management Operation and Objectives

2.1 The activities of the treasury management operation cover:-

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

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

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

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

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

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

3) Approved Instruments and Organisations for Investment

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

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

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

3.4 The Authority uses the creditworthiness service provided by Capita Asset Services. The service does not only rely on the current credit ratings of counterparties but also uses the following as overlays:-

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

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

3.5 This service provides an independent assessment by professionals of the overall credit quality of an institution. Weekly reviews of the credit ratings ensure that the Authority's criteria are maintained and the Authority is alerted to changes on a daily basis. Officers also access other rating information supplied by other providers.

3.6 The Authority can currently utilise the following instruments:-

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

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

3.7 The borrowers dealt with from April 2016 to February 2017 are shown in Appendix IV.

3.8 The amount invested with any one institution is limited. All loans must take due cognisance of the amount involved and the quality of the borrower in both absolute and relative terms to the whole lending book. The lending limit for specified investments with a short term credit rating of F1 or better is £15m. However, subject to obtaining prior approval from the Chair and Vice-Chair, the limit can be extended to £20m. A unit limit of £10m applies to non-specified investments i.e. the Authority can lend to the top twenty Prudential Regulatory Authority (or equivalent FATF regulator) regulated building societies, or those with assets in excess of £1bn. The Authority's principal bankers (i.e. Lloyds and HSBC) both have a short term credit rating of F1 or better and so have a lending limit of £15m. In exceptional circumstances this is increased to no more than £20m for short term placing of excess funds pending market settlements. Officers regularly review the credit rating criteria the Authority uses and have concluded that the present approach is fit for purpose.

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

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

3.11 Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016: SI 2016/946 the administering authority has a power to borrow on behalf of the LGPS fund it administers in certain circumstances.

4) <u>Overdraft</u>

4.1 The current overdraft limit of £100,000 is with the Authority's clearing bank, Lloyds, and is available until 31 August 2017. The current interest rate on authorised overdrafts is officially 2% above the Base Rate. This facility is very rarely used. It is a contingency for unexpected events or to facilitate short term allocations and is subject to immediate termination.

4.2 I can report that the Authority has had no difficulty in terms of overdraft limits formerly set, nor are any difficulties envisaged for current or future years. This view takes into account current commitments, existing plans and proposals in the approved budget. Accordingly, it is intended to seek renewal of the facility from 1 September 2017.

5) Delegated powers

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

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

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

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

B Implementation

6) 2017/18 Immediate Considerations

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

	£M	%
Borrowing Requirement 2017/2018	None	
Current Bank of England Bank Rate (changed 4 Aug 16)		0.25%
Current Investment Rates estimated range (overnight) for £10m deposit size		0.15-0.2%

7) Prospects for Interest Rates

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

a) Short Term Interest Rates

Bank Rate dropped by 0.25% to 0.25% in August 2016 and had previously been held at 0.5% since March 2009. The Bank of England has indicated it is not likely to rise in the foreseeable future and that when it does so it will be gradual. The economic and investment environment does not appear to have great impetus and remains below trend. It is very dependent upon consumer spending though the latest manufacturing indicators are a bit more encouraging. The labour market remains robust though wage growth is still subdued Growing inflationary pressures are not evident in the economy and, thus, inflation should remain below the 2% target in the short term.

b) Longer Term Interest Rates

Given the nature of the Authority's portfolio and liquidity requirements forecasting longer term interest rates is a low priority for this function. However, the Bank of England's view appears to be that inflation will exceed the 2% over the next two years. It judges that Bank Rate will increase over that period. However, the rise will be gradual and to a lower level than in recent cycles. But that view is an expectation only and policy will be determined by actual economic circumstances.

8) Short term considerations

8.1 Capital Finance

The Authority may have a requirement to finance capital expenditure in relation to the acquisition of new software licences or similar. Such expenditure will ultimately be financed from the Fund.

8.2 Debt Rescheduling

The Authority has no debt.

8.3 Temporary Investments

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

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

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

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

8.4 Utilisation of Amounts Set Aside for Debt Redemption

The Authority has no debt.

8.5 Other issues

8.5.1 The Authority had deposits with Icelandic banks or their UK subsidiaries in 2008 at the time of their collapse. Both capital and interest due on these deposits was written off within its 2008/09 accounts.

8.5.2 The final balance of Icelandic Kronur held from the Glitnir deposit was released in June amounting to a final receipt of £21,200 on 30 June 16.
The KSF claim was sold in April 16 for just over £62,000.
The only claim now left outstanding is the Heritable bank. The recovery so far is 98% and there is hope of a final, small payment in the next 12 months resulting in a return of roughly 98/99p/£ in total.

APPENDIX II

SOUTH YORKSHIRE PENSIONS AUTHORITY

DETERMINATION OF AFFORDABLE BORROWING LIMIT 2017/2018

1) Background Information

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

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

2) Proposed Limit for 2017/2018

2.1 In accordance with the Act, the following determinations are proposed for 2017/2018:

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

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

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APPENDIX III

SOUTH YORKSHIRE PENSIONS AUTHORITY

MINIMUM REVENUE PROVISION POLICY STATEMENT 2017/18

1. The Minimum Revenue Provision (MRP) is a statutory charge relating to the repayment of debt and until 2007/08, the basis of the calculation was specified as 4% of the capital financing requirement, which represents the Authority's underlying need to borrow for capital expenditure.

2. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 came into force on 31 March 2008 and replaced the above statutory calculation with a more general duty for the Authority to make an amount of MRP which the Authority considers "prudent".

3. Prudent provision is not defined within the Regulations but the guidance sets out several options which could be considered, although the overriding principle is that the charge to revenue should be linked to the lives of the assets funded by borrowing.

4. MRP commences in the year following the one in which the capital expenditure is incurred.

5. In accordance with the guidance, the MRP policy recommended for 2017/18 is as follows:

   a) For capital expenditure incurred before 1 April 2008, MRP will be based on 4% of the Capital Financing Requirement
   b) For capital expenditure incurred after 1 April 2008, for which borrowing is undertaken, MRP will be calculated based on equal annual instalments over the estimated life of the asset. The estimated life of each asset will be assessed each year based on the type of expenditure.
   c) MRP will be deferred for new capital projects until the year after the asset is complete and therefore operational rather than the year in which the capital expenditure is undertaken. This approach is beneficial for building projects which take more than one year to complete.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

LIST OF BORROWERS: APRIL 2016 – FEBRUARY 2017

Banking institutions rated F1 or above as per Fitch Ratings Ltd

AUSTRALIA & NEW ZEALAND BANKING GROUP	F1+
CANADIAN IMPERIAL BANK OF COMMERCE	F1+
COMMONWEALTH BANK OF AUSTRALIA	F1+
DBS BANK LTD	F1+
DZ BANK AG	F1+
HSBC BANK PLC	F1+
LANDESBANK HESSEN THUERINGEN (HELABA)	F1+
LLOYDS BANK PLC	F1
NATIONAL BANK OF CANADA	F1
OVERSEA CHINESE BANKING CORP LTD	F1+
RABOBANK	F1+
SOCIETE GENERALE	F1
SUMITOMO MITSUI BKG CORP EUROPE LTD	F1
UNITED OVERSEAS BANK LTD	F1+

DMO was used on **21 occasions.**
The maximum amount lent was £40 million

Local Authorities

CAMBRIDGESHIRE CC
GLASGOW CITY COUNCIL
LEEDS CITY COUNCIL
LONDON BOROUGH OF HARINGEY
LONDON BOROUGH OF NEWHAM
PCC FOR SOUTH YORKSHIRE
STOCKPORT MBC

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FEBRUARY, 2017

Agenda Item 15

LGPS CURRENT ISSUES

NEWS IN BRIEF

IN THIS ISSUE

BREXIT UPDATE

At the end of last year, the UK Government challenged the High Court's ruling that Parliament must be allowed to vote before the Government can give formal notice of the UK's decision to withdraw from the European Union (that is, to trigger Article 50). On 24 January the Supreme Court published its judgment that an Act of Parliament will indeed be required. Further, the Supreme Court held that the Scottish Parliament and the Wales and Northern Ireland Assemblies do not have a veto on the UK's decision to withdraw from the EU.

The briefly worded European Union (Notification of Withdrawal) Bill has now been published, and at the time of writing will be given priority over other business by Parliament.

Rather than blocking the triggering of Article 50, it is likely that "remainers" will seek concessions from the Government on the terms of the UK's withdrawal. The Prime Minister, Theresa May, made a key speech on 17 January about her plans for a "hard" Brexit, and has since announced that the Government will set out its plans formally in a white paper.

The plans include:

- Taking the UK out of Europe's single market. The intention is that the UK pursues the greatest possible access to the single market, on a fully reciprocal basis, through a comprehensive free trade agreement.

- Taking control of who enters the UK from Europe. The intention to reach an early deal to guarantee the rights of EU nationals living in the UK, and UK nationals living in the EU.

- The UK taking back control of making its own laws. The Government will adopt EU law in the Great Repeal Bill, and Parliament will then decide what laws it wants to change. In addition, the Prime Minister does not intend the UK to be bound by decisions of the Court of Justice of the EU after Brexit.

- A phased transitional deal for Brexit. This will vary in length for different aspects of Brexit.

Although the Government has set out what it is seeking from Brexit, it will not be certain until a deal is concluded on what can be negotiated with the EU. In the meantime, markets will continue to react to developments around Brexit and perhaps more widely to the changes in the political and fiscal outlook globally and in particular the changes in the US.

ONS INFLATION ANNOUNCEMENT AND SEPTEMBER 2016 CPI

On 10 November, it was announced that the Office for National Statistics (ONS) will make CPIH – a variant of the standard Consumer Price Index (CPI) – its preferred measure of consumer price inflation from March 2017. For September 2016, the rate of CPIH was 1.2%.

The announcement has led to speculation that CPIH will be used by the Government for the uprating of social security benefits and indexation of pensions. There is, however, no indication at the moment that the Government plans to use CPIH as its measure for uprating public service pensions.

In recent years the Government has based both pension increases and revaluation of pension accounts to be applied in April, on the Consumer Prices Index (CPI) rate of inflation for September of the previous year. On 18 October 2016, the Office for National Statistics (ONS) announced that the Consumer Prices Index (CPI) rate of inflation for September 2016 was 1.0%. We await confirmation, although it is our expectation that this rate will be applied for the LGPS.

INDEXATION AND EQUALISATION OF GMPs

On 28 November 2016, the Government issued a consultation about equalisation and indexation of Guaranteed Minimum Pensions (GMPs) for public service scheme members who reach State Pension Age (SPA) after 5 December 2018.

The consultation aims to address two issues simultaneously, namely:

1. The equalisation of male and female GMPs accrued after 17 May 1990

2. Historic commitments by previous Governments that all public sector workers will receive full indexation on their pensions (including GMPs).

Under the proposals, the burden of providing indexation on GMPs will now fall on the public service schemes themselves and all the associated employers in those schemes, whether public sector or not. This is because these increases will no longer be provided through the Additional State Pension (ASP) following recent changes to state pension provision.

The proposals are either administratively complex and costly, or increases the cost of the LGPS, or possibly both. Currently there appears to be no expectation that extra funding might be available to LGPS to cover the cost. As part of the consultation the

Government have asked for alternative proposals. We are currently finalising our response to the consultation and intend to put forward our suggested alternative to Treasury. The consultation closes on 20 February 2017.

END OF CONTRACTING-OUT

HMRC have confirmed that they will automatically close all open periods of contracted out employment held on their records (i.e. for active members) in December 2016. HMRC will then be contacting pension schemes with their data (active members only) between January 2017 and March 2017 to allow schemes to reconcile their active member records. HMRC countdown bulletin 21 provides information on how to obtain "closure scan" data for your active members. Funds are reminded to complete and return a closure scan request form as soon as possible. We would urge Administering Authorities who have not yet looked at reconciling their GMP data to send any queries in relation to deferred and pensioner members to HMRC as soon as possible. Speak to your usual Mercer consultant if you would like any assistance with this.

AGE DISCRIMINATION CHALLENGE TO JUDICIAL PENSION SCHEME SUCCEEDS

An Employment Tribunal has held that transitional pension protections that favoured older judges are discriminatory. When the public service pension arrangements for the judiciary were reformed by the Government, older judges were permitted to remain in the old scheme, while younger judges were required to leave it for a scheme with much less favourable benefits, either immediately or at the end of their protection period.

This decision could open the way to further challenges, indeed we are aware that a similar case has been brought by the Fire Brigades Union in respect of changes made to the Firefighters' Pension Scheme.

Although Employment Tribunal decisions are not binding on other tribunals or the courts, the ruling could have implications for the other public service pension schemes, where some similar reforms were made and protections for older members were included. For the LGPS a Statutory Underpin was introduced, but only applied to those within 10 years of retirement in 2012. The Government may appeal the decision and so we await developments.

THE PENSIONS REGULATOR (TPR)

Following a recent survey that the Regulator undertook with regards to record keeping standards in occupational pension schemes, it found that little improvement had been made on standards recently. Improving record keeping standards will be a continued focus for the Regulator over the next year. It has published a short guide to assist managers of pension schemes in meeting their duties.

The Regulator has also published a self-assessment tool for those involved in running public service pension schemes to assess how they are getting on with both meeting their legal requirements and complying with the guidance set out in the Regulator's code of practice number 14.

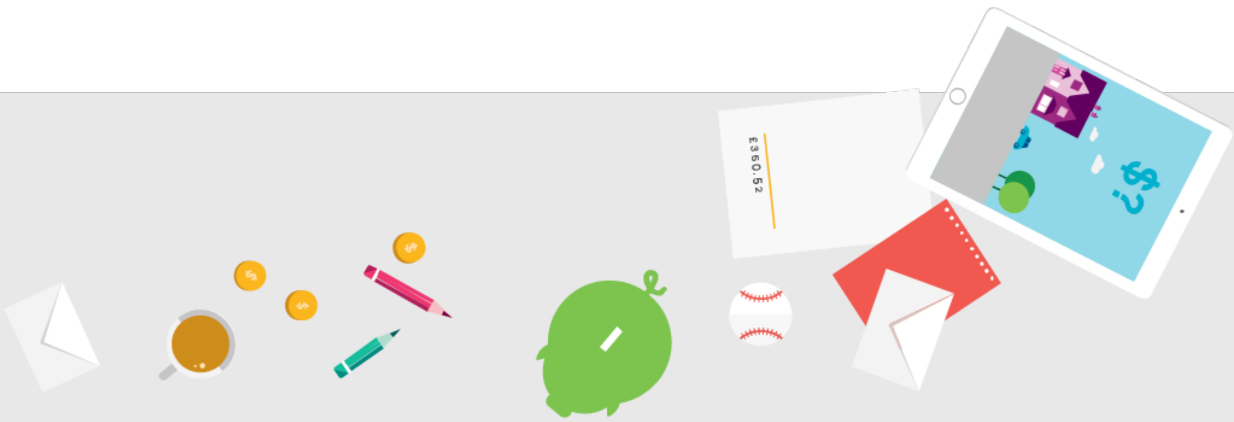
Building upon the survey TPR carried out last year on the governance and administration of public service pension schemes, it started work on its 2016 survey during November. More focus will be given to record-keeping, internal controls and communications as part of this survey.

ALTERNATIVE DELIVERY MODELS

In October 2016, CIPFA published "a practical guide to alternative delivery models". This publication is designed to be a resource for people working in or with alternative delivery vehicles and for those who may be considering or are participating in setting one up. It will be useful for managers and officers involved in commissioning services or looking at new service delivery models. It can be read as a whole or dipped into for information on specific areas. Mercer can provide additional training to employers and managers to assist understanding in this area. If this is something you or your employers are considering, we would recommend involving your Mercer consultant at the earliest possible opportunity.

OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATIONS

- On 23 September 2016 the LGPS (Management and Investment of Funds) Regulations 2016 were laid before parliament effective from 1 November 2016. The regulations facilitate the pooling of investment funds and introduce:
    - A requirement to publish an investment strategy no later than 1 April 2017 in accordance with guidance issued by the Secretary of State.
    - A power for the Secretary of State to intervene where an authority fails to comply with its statutory obligations as regards its pension fund or were it fails to act in accordance with guidance.
- **MiFID II** – the EU Markets in Financial Instruments Directive (MiFID) introduced in 2007 is now being revised with the aim of improving the functioning of financial markets in light of the financial crisis and to strengthen investor protection. The changes are due to take effect on 3 January 2018 and the new provisions will be known as MiFID II. In the UK, the FCA is responsible for implementing the changes. They have been consulting on this, and one aspect included the impact on local authorities (and LGPS Funds). A critical area in this regard is the categorisation of investors (i.e. whether they are eligible counterparties, professional clients or retail clients) based on certain criteria. Under the new proposals, Local Authorities will be classified as retail clients, which could ultimately limit the range of investments available as well as the access to professional investment advice. Local Authorities will, however, be able to "opt-up" should they meet a series of qualitative and quantitative tests. At the current time there is some concern that Local Authorities would not necessarily be able to satisfy the opt-up criteria which would have potentially severe consequences. Interested parties are working with the FCA on this to ensure the process is clear and sensible to avoid any unintended consequences. Separately it is expected that the new investment "pools" will automatically qualify as "professional clients". Funds should seek further input from their advisors on the implications of this and we will update on progress in due course.



- **Education Sector –** Following the conclusion of the Government consultation undertaken earlier this year to introduce insolvency provisions for further education and sixth form colleges in England, the Government will now take forward their plans via primary legislation. Also in the education sector, on 27 October 2016 the Government reported that it had dropped its bill to require all schools in England to convert to academy status by 2022. This will still be encouraged by the Government but it will now be on a voluntary basis and as such no new primary legislation will be needed.

- **New Fair Deal –** following the consultation carried out last year, further details and clarifications needed have been identified. We believe that a further consultation may be needed on an updated set of provisions to apply the principles of New Fair Deal to the LGPS.

- **Freedom and Choice for AVCs –** similar to the above, further work has been identified and so our understanding is that a further consultation is likely. Separately a working party has been established to consider the practicalities in potentially implementing changes to the LGPS money purchase AVCs, with regards to making UFPLS payments.

- **Exit payments –** In September, the government responded to the further consultation on exit payments confirming that it intends to proceed with plans for further reform. The response confirms that the government expects departments to produce packages consistent with the framework set out and consult on these where appropriate with the aim of having completed negotiations and made the necessary amendments to exit arrangements within nine months of the publication of the government response (i.e. by 26 June 2017). A working group of the LGPS advisory board is considering whether it wishes to make a recommendation to DCLG on the reforms it wishes to see made.

  There is still no hard deadline for the implementation of the public sector exit payment cap or recovery regulations, as the secondary legislation is still being finalised. It is our understanding that further consultant will be undertaken before it formally comes into effect.

- **Plans for Single Financial Guidance Body –** Free and impartial financial guidance to individuals is currently provided by three public services: The Money Advice Service, The Pensions Advisory Service and Pension Wise. However, the Government is consulting on plans to change this model with the creation of a single financial guidance body (SFGB).

  The Government is of the view that there are gaps, as well as duplication, in the guidance currently available, and that a SFGB would be better suited to respond to the different financial needs of consumers.

  The Government is seeking feedback as to whether the proposed model would allow consumers to access the guidance they need to make effective financial decisions. The consultation closes on 13 February 2017 and it is anticipated that the SFGB will be launched no earlier than autumn 2018.

- **State Pension Age –** An independent report on the review of State Pension Age is expected early in 2017, and the Government must publish the outcome of the review by 7 May.

- **The General Data Protection Regulation** is expected to come into effect from 25 May 2018. Administering authorities should consider, in partnership with legal advisors what action may need to be taken during 2017 to ensure compliance.

OTHER THINGS IN THE PIPELINE...

- **ACADEMIES REVIEW** – PWC have been appointed to carry out a full review of the possible options and implications for Academies and Funds within the LGPS framework. Nothing has been ruled in, or out at present and we await their report with interest (currently expected in March). We have provided our direct input into the process on behalf of our clients.
- **COST MANAGEMENT 2016** – The GAD have been provided with the required data from the LGPS Funds and we await their findings in anticipation of potential action with effect from 1 April 2019. Funds should be mindful that current expectations are that the costs of the scheme will have increased (not least due to lack of 50:50 take-up), although we await more information – initial results are expected in May/June.
- **COST MANAGEMENT TRANSACTIONAL DATA** – The data request has been finalised, but we have yet to see any evidence that production of the transactional data in the required format is achievable for Funds. We will keep our clients updated as and when further details emerge.
- **DEFICIT WORKING GROUP** – This has been reconstituted and we attended a meeting on 8 November 2016 to consider a work plan for the coming months. Deficit management will be considered for three distinct groups; tax payer backed employers, academies and private sector employers with no central or local authority guarantee. Further separate pieces of work are underway and we will keep our clients updated on developments.
- **TRANSFER CLUB MEMORANDUM UPDATE** – A new transfer club memorandum is due to be released to coincide with the release of the revised Club Transfer Factors, proposed to be effective from 1 March 2017. We will keep Administering Authorities updated as more details emerge.

TAXATION ROUND UP

- The Finance Act 2016 received Royal Assent on 15 September. The key pension aspects of the Act for the LGPS were the reduction in the lifetime allowance to £1 million (effective from 6 April 2016), the introduction of new individual and fixed protections to enable members to protect a higher allowance in certain circumstances and the higher limits for trivial lump sums.

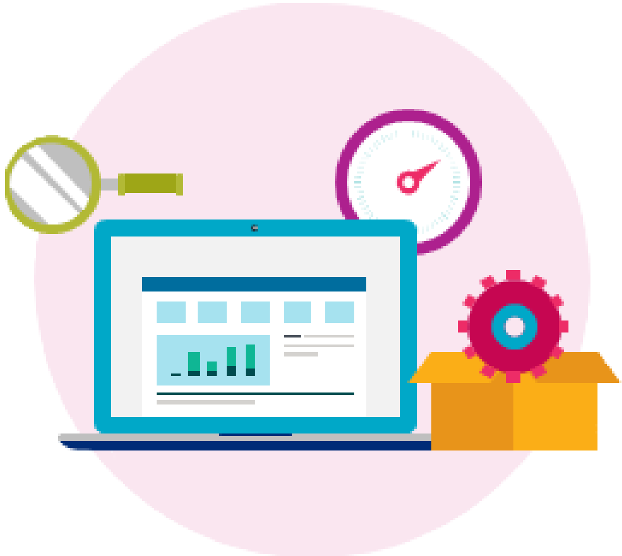
- Automatic Enrolment – previous powers for employers to exclude an individual from the automatic enrolment requirements where they held an active lifetime allowance protection have not currently been extended to include the new fixed protection 2016 or individual protection 2016. Until an amendment is made to the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010, an employer must automatically enrol (or re-enrol) an eligible jobholder into the LGPS even where that individual holds fixed protection 2016 or individual protection 2016. It will be up to the individual to make sure they opt-out of automatic enrolment (or re-enrolment) to maintain their tax protection if required. An individual who holds individual protection 2016 will not lose their tax protection if they make further pension savings but any pension savings in excess of their protected lifetime allowance will be subject to a lifetime allowance charge.

- Scheme Pays – Following the introduction of the Tapered Annual Allowance with effect from April 2016. Some affected members may not have the right to the "mandatory" scheme pays requirements and it is up to individual pension schemes to agree whether to allow "voluntary" scheme pays for those members. The LGA are currently seeking urgent legal advice on whether administering authorities have the power to agree to voluntary scheme pays without an amendment to the Regulations and will issue further comment in due course.

- Termination payments with effect from April 2018, which are over £30,000, will be subject to employer NICs as well as income tax. The first £30,000 of a termination payment will remain exempt from both.

- The income tax personal allowance threshold will rise to £11,500 for the 2017/18 tax year and the higher rate threshold will rise to £45,000. The Government intends to increase these further over the next few years, up to £12,500 and £50,000 respectively.

- Scottish taxpayers - If your scheme has any pensioner members resident in Scotland, you will need to ensure that your pensioner payroll is set up to handle the new higher-rate tax threshold (£43,430) that will apply for Scottish taxpayers from April 2017.



DATES TO REMEMBER

DATE	ISSUE	SUMMARY
31 March 2017	Actuarial valuation	Deadline for Funding Strategy Statements to be formally updated in order for Actuarial Valuation to be signed off by the Fund Actuary.
31 March 2017	Actuarial valuation	Deadline for the 2016 England and Wales actuarial valuation exercises to have been formally signed off by the Fund Actuary. Effective date of the Scottish LGPS actuarial valuations.
April 2017	Pensions Advice Allowance	The Government plans to introduce an allowance from this month for members to use against the cost of regulated financial advice. Subject to consultation.
April 2017	Lifetime ISA	The new Lifetime Individual Savings Account will be launched this month.
1 April 2017	Investments	Deadline for the new Investment Strategy Statement (ISS) to be published by the LGPS Funds.
6 April 2017	Scottish Income tax	The Scottish Parliament is proposing to vary the higher rate threshold for Scottish taxpayers from this date.
7 May 2017	State Pension Age	Deadline for publication of the first report on the independent review of the State Pension age.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

16 March 2017

Report of the Deputy Clerk

SECTION 73 LOCAL GOVERNMENT ACT 1985 APPOINTMENT OF STATUTORY OFFICER (CHIEF FINANCE OFFICER)

1 Matter for consideration

To advise the Authority of the requirement to appoint a statutory officer to be responsible for the proper administration of the financial affairs of the Authority as required by Section 73 of the Local Government Act 1985 to reflect revised arrangements for the organisation of core functions within Barnsley MBC with effect from 1st April 2017.

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2 Recommendations

i) **Note the report and approve the appointment of Mr Neil Copley, Service Director for Finance from Barnsley MBC, as its Statutory Finance Officer with effect from 1st April 2017.**

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3 Background Information

3.1 In accordance with Section 73 of the Local Government Act 1985 and Section 113 of the Local Government Finance Act 1988 there is a statutory requirement on the Authority to designate one of its officers to be responsible for the proper administration of its financial affairs; a Chief Finance Officer. The individual is required to be a suitably qualified accountant holding a CCAB recognised professional accountancy qualification.

3.2 It is one of three roles, the others being the Head of Paid Service and the Monitoring Officer. For South Yorkshire Pensions Authority, these roles are fulfilled by the Interim Fund Director and Barnsley MBC's Director of Legal and Governance respectively. These roles should remain distinct and separate.

3.3 Barnsley MBC is responsible for the provision of professional core services to the Authority under an established agreement made in 1986 between the Authority and the four District Councils in South Yorkshire. This is supported by a service level agreement which is periodically reviewed by the Authority. The delivery of these services is overseen by the Chief Executive of Barnsley MBC who is appointed as Clerk to the Authority.

3.4 The statutory officer required to be appointed under Section 73 of the Local Government Act 1985 has the following key responsibilities:

- To ensure lawfulness and financial prudence of decision making;
- To be responsible for the administration of financial affairs;
- To be responsible for provision of professional financial advice;
- Setting a balanced budget;
- Budget monitoring;
- Final accounts sign off;
- Responsible for internal audit work; reviewing reports, attending Corporate Planning and Governance Board and managing the Head of Internal Audit;
- Receipt of all government notifications, responsibility for returns;
- Authorisation of treasury management decisions;

- All formal financial related decision making with guidance form the Clerk.

3.5 The current statutory Chief Finance Officer is the Director of Finance, Property and Information Services with Barnsley MBC. Barnsley has reconfigured its Core Services and the Director of Finance is due to retire from the Council on 31st March 2017. The statutory responsibilities for the finance function at Barnsley MBC are to be assumed by Mr Neil Copley, Service Director for Finance. The Director of Legal and Governance is to assume the role of Director of Core services with overall responsibility for core functions. The Director will continue to act as Monitoring Officer to Barnsley MBC and to the Authority.

3.6 The Authority is therefore recommended to appoint Mr Neil Copley as its Statutory Finance Officer as required by Section 73 of the Local Government Act 1985 with effect from 1st April 2017.

4 Implications

4.1 Financial
None

4.2 Legal
It is a legal requirement for the Pensions Authority to have a designated Statutory Finance Officer under Section 73 of the Local Government Act 1985. Not having a statutory officer in place would be unlawful.

4.3 Diversity
None

4.4 Risk
Not having a statutory officer in place, in addition to being unlawful, could also put the financial affairs of the Authority at risk.

M McCarthy
Deputy Clerk

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

Other sources and references: None.

SOUTH YORKSHIRE PENSIONS AUTHORITY

16 March 2017

Report of the Deputy Clerk

CHANGE OF AUTHORITY MEMBERSHIP

1 Matter for consideration

To report on a change of Authority membership.

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2 Recommendations

i) Note that Councillor Iqbal's membership of the Authority has ceased.

II) Note the appointment of Councillor Curran to the Authority by Sheffield City Council on 1 February 2017.

iii) To consider appointing Councillor Curran to the Investment Board to replace Councillor Iqbal.

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3 Background Information

3.1 Councillor Iqbal's of South Yorkshire Pensions Authority ceased on 27 January 2017.

3.2 At its meeting on 1 February 2017, Sheffield City Council appointed Councillor Ben Curran to the Authority to replace Councillor Iqbal.

3.3 Following Councillor Iqbal's departure there is a vacancy on the Investment Board.

4 Implications

4.1 Financial
None

4.2 Legal
None

4.3 Diversity
None

4.4 Risk
None

M McCarthy
Deputy Clerk

Officer responsible: Gill Richards, Democratic Services Officer.

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

Other sources and references: None.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

16 March 2017

Report of Clerk

MEETINGS OF THE AUTHORITY AND BOARDS IN 2017/18

1. Purpose of the Report

To consider the proposed schedule of Authority and Board Meetings during 2017/18.

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2. Recommendations

Members are recommended to approve the cycle of meetings for 2017/18.

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3. Information

3.1 Meetings of the Authority and Boards are currently fixed up to the Annual Meeting on 8 June 2017.

3.2 Attached as an **Appendix** to this report is a cycle of meetings for 12 months from June 2017.

3.3 **It should be noted that as Barnsley MBC meetings are held on a Thursday, the meeting dates in the Appendix have been produced against the existing Barnsley MBC meeting cycle, but this is still in draft until May 2017. Where possible, the dates have also been checked against the meeting calendars of the other three districts.**

4. Implications and risks

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

D Terris
Clerk

Officer responsible: Gill Richards Democratic Services Officer
BMBC Joint Authorities Governance Unit
01226 772806 grichards@syjs.gov.uk

Background papers: None

Other sources and references: None

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PENSIONS AUTHORITY MEETINGS 2017/18

Pensions Authority	Corporate Planning & Governance Board	Investment Board	LPB
	2017		
	1 June*		
8 June (Annual)*			
		22 June*	
	20 July		20 July
		14 September	
5 October			5 October
	19 October		
30 November			
		14 December	
	2018		
18 January			18 January
	15 February		
		8 March	
15 March			15 March
	14 June		
7 June (Annual)			
		21 June	

* Meeting dates already arranged

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