



**SOUTH YORKSHIRE
PENSIONS 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 in Meeting Room 14, Town Hall, Barnsley, S70 2TA on Thursday 22 November 2018 at 10.00 am for the purpose of transacting the business set out in the agenda.

A handwritten signature in black ink that reads "Diana Terris".

**Diana Terris
Clerk**

This matter is being dealt with by: Gill Richards
Email: grichards@syjs.gov.uk

Tel: 01226 772806

WEBCASTING NOTICE

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

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

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

Distribution

Councillors S Ellis (Chair), A Bainbridge, S Cox, S Durant, A Hurst, J Mounsey, A Sangar, I Saunders, M Stowe, A Teal, R Wraith and K Wyatt.

Contact Details

For further information please contact:

<p>Gill Richards Joint Authorities Governance Unit Town Hall, Barnsley, South Yorkshire S70 2TA</p> <p>Tel: 01226 772806 g-richards@syjs.gov.uk</p>	<p>Andrew Shirt Joint Authorities Governance Unit Town Hall, Barnsley, South Yorkshire S70 2TA</p> <p>Tel: 01226 772207 a-shirt@syjs.gov.uk</p>
---	--

SOUTH YORKSHIRE PENSIONS AUTHORITY

**22 NOVEMBER 2018 AT 10.00 AM IN MEETING ROOM 14, TOWN HALL,
BARNLEY, S70 2TA**

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 4 October 2018	1 - 8
7	Minutes of the Investment Board held on 13 September 2018	9 - 12
8	Minutes of the meeting of the Corporate Planning & Governance Board held on 18 October 2018	13 - 18
9	Minutes of the Local Pension Board held on 4 October 2018	19 - 26
10	Work Programme	27 - 28
11	Section 41 Feedback from District Councils	Verbal Report

	Item	Page
12	Quarter 2 Performance Snapshot Report	29 - 36
13	Freedom of Information Act 2000: Annual Report	37 - 40
14	Revenue Budget for 2019/20 and Revised Budget for 2018/19	41 - 54
15	Framework for the 2019 Actuarial Valuation	55 - 60

SOUTH YORKSHIRE PENSIONS AUTHORITY

4 OCTOBER 2018

PRESENT: Councillor M Stowe (In the Chair)
Councillors: A Bainbridge, A Hurst, A Sangar, I Saunders,
R Wraith and K Wyatt
Trade Unions: D Patterson (UNITE) and G Warwick (GMB)
Officers: J Bailey (Head of Pensions Administration), N Copley
(Treasurer), A Frosdick (Monitoring Officer), G Graham (Fund
Director), M McCarthy (Deputy Clerk) and G Richards (Senior
Democratic Services Officer)
J Thompson (Chair, SY Local Pension Board) (Observer)
Apologies for absence were received from Councillor S Ellis,
Councillor S Cox, Councillor S Durant, Councillor J Mounsey,
Councillor A Teal and N Doolan-Hamer

1 APOLOGIES

M Stowe, Vice-Chair of the Authority, informed Members that the Chair had been delayed by a flight cancellation and therefore he would be chairing the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

G Graham informed Members that the Annual Fund meeting would be held on Thursday 18 October 2018 at the Carlton Park Hotel, Rotherham at 5.30pm. All were welcome to attend.

3 URGENT ITEMS

None.

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

RESOLVED: That item 22, 'Senior Management Arrangements' would be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 MINUTES OF THE ANNUAL AUTHORITY MEETING HELD ON 7 JUNE 2018

M McCarthy informed the Authority that there were two outstanding matters to resolve from the Annual meeting.

It was confirmed that Cllr A Sangar would be the s41 substitute for Sheffield CC.

It was proposed that Cllr R Wraith would be appointed to the Investment Board and Cllr A Teal be appointed to the Corporate Planning and Governance Board. This was carried by a majority vote; Cllr A Sangar voted against.

RESOLVED:

- i) That Cllr A Sangar be appointed as the s41 substitute member for Sheffield CC.
- ii) That Cllr R Wraith be appointed to the Investment Board.
- iii) That Cllr A Teal be appointed to the Corporate Planning and Governance Board.
- iv) That the minutes of the Annual Meeting held on 7 June 2018 be agreed and signed by the Chair as a correct record.

7 MINUTES OF THE ORDINARY AUTHORITY MEETING HELD ON 7 JUNE 2018

RESOLVED: That the minutes of the Ordinary meeting held on 7 June 2018 be agreed and signed by the Chair as a correct record.

8 MINUTES OF THE CORPORATE PLANNING AND GOVERNANCE BOARD HELD ON 14 JUNE 2018

RESOLVED: That the minutes of the Corporate Planning and Governance Board held on 14 June 2018 be noted.

9 MINUTES OF THE CORPORATE PLANNING & GOVERNANCE BOARD HELD ON 19 JULY 2018

RESOLVED: That the minutes of the meeting of the Corporate Planning and Governance Board held on 19 July 2018 be noted.

10 MINUTES OF THE INVESTMENT BOARD HELD ON 21 JUNE 2018

Cllr Sangar queried when the agriculture portfolio would be reviewed. G Graham replied that this would be done alongside the Investment Strategy Review and be presented to the Authority and the end of 2019/beginning of 2020.

If it was decided to hold the portfolio it would have to be decided the best way to manage and structure the portfolio. If it was decided not to hold the portfolio the best way to dispose of the assets would have to be decided in conjunction with advisors.

RESOLVED: That the minutes of the meeting of the Investment Board held on 21 June 2018 be noted.

11 MINUTES OF THE LOCAL PENSIONS BOARD HELD ON 7 JUNE 2018

RESOLVED: That the minutes of the meeting of the Local Pension Board held on 7 June 2018 be noted.

12 WORK PROGRAMME

The Authority considered its Work Programme. Members were reminded that their contributions of additional items for the Work Programme would be welcomed.

RESOLVED: That the Work Programme be noted.

13 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

Members from Barnsley and Rotherham noted an increase in questions from constituents. Members were reminded that G Graham and J Bailey were happy to provide responses if so required.

14 PERFORMANCE SNAPSHOT REPORT 2018/19: Q1

The Authority considered the Performance Snapshot Report for 2018/19 Quarter 1.

Members noted the improved performance of the Administration team.

It was also noted that the staff turnover figures were artificial; 6 staff members had left but had TUPE transferred to Border to Coast.

The Fundamentals training percentage was lower than normal due to new Members not yet having completed the training; the training would be held over the coming months.

RESOLVED: That the report be noted.

15 SOUTH YORKSHIRE LOCAL PENSION BOARD ANNUAL REPORT 2017/18

The Chair welcomed Jill Thompson, Chair of the Local Pension Board, to the meeting to present the Board's Annual Report.

J Thompson highlighted the Board's work throughout the year, including assisting in the development of a Reporting Breaches of the Law procedure.

Attendance had been good throughout the year with 6 members attending every meeting, although it had been difficult to get the district councils to either appoint or attend on a regular basis.

Training events had been well attended including the recent Seminar and several Board members would be attending the Fundamentals training in the coming months.

J Thompson thanked G Boyington and members for their commitment to the Board.

In answer to a question from a Member, M McCarthy explained that, as major employers, the district councils had been offered two places on the Board on a two-

year rotation. From the outset attendance had been poor and this year one Authority had failed to appoint. Discussions were ongoing amongst officers to try and resolve the situation.

The Chair thanked J Thompson for attending to present the report.

RESOLVED: That the report be noted.

16 CP&GB AUDIT COMMITTEE FUNCTIONS ANNUAL REPORT 2017/18

The Authority considered the Corporate Planning and Governance Board's Audit Committee Function Annual Report.

The report covered the Board's:

- Roles and responsibilities.
- Membership.
- Meetings and attendance; and
- Achievements and outcomes.

The report was intended to provide reassurance in support of good governance.

RESOLVED: That the report be noted.

17 GOVERNANCE ARRANGEMENTS

A report was submitted which set out various immediate and longer term changes to the Authority's governance arrangements.

Members were reminded that the Chair, Cllr S Ellis, had been appointed as a Non-Executive Director of the Border to Coast Board.

Whilst a good result in terms of composition of BCPP's Board, the appointment raised conflicts of interest issues for the Authority. Also, an individual elected as a NED of BCPP was specifically excluded from membership of the BCPP Joint Committee.

Longer term, the Authority's current governance arrangements were designed for a very different organisation to the one that pooling would create.

It was proposed to disestablish the Investment Board and the Corporate Planning and Governance Board and deal with all business, with the exception of audit, through the full Authority.

An Audit Committee, comprised of the s41 members and one Councillor not from the majority party, would be constituted and would meet three times per year to deal with all internal and external audit matters.

It was also proposed to constitute a Staffing, Appointments and Appeals Committee to be chaired by the Chair of the Authority and with a remit to deal with staffing matters to make specific officer and other appointments (such as the appointment of Independent Advisors), and handle appeals which required to be heard by members).

The proposed arrangements would reduce the number of meetings by nearly 40%. The freeing up of time would provide the opportunity to run more informal sessions for members for either learning and development or policy development.

Another issue to be resolved was how to address shareholder matters and decision making in relation to routine shareholder resolutions relating to Border to Coast which fell outside the Authority meeting cycle. The two options proposed were:

- a) The Fund Director (or other appropriate officer) would advise the Chair on the detailed subject of the resolution and recommends how the Authority should vote; or
- b) As option (a), but with additional consultation, either with the Vice-Chair or the s41 members.

Another item absent from the Authority's governance arrangements was an "urgent business procedure". It was proposed that in the event of a decision being required to be taken urgently, they be taken by the relevant statutory officer (Clerk, Fund Director, Monitoring Officer or Treasurer) in consultation with the Chair and Vice-Chair and then reported at the next meeting of the Authority.

The Authority discussed the proposals in detail and, whilst recognising there was further work to be done on the finer details, generally accepted the proposals.

RESOLVED:

- a) To approve the changes to the arrangements for the chairing of the Authority's Boards for the remainder of the municipal year as set out in paragraph 3.3 of the report.
- b) That the Vice-Chair of the Authority will represent the Authority on the Border to Coast Joint Committee and act as the Authority's shareholder in the operating company until the end of the municipal year.
- c) That Cllr Ian Saunders would act as substitute to the Vice-Chair in the event he was unable to attend a meeting of the Joint Committee.
- d) To approve the disestablishment of the Investment Board and the Corporate Planning and Governance Board with effect from the beginning of the next municipal year, with their functions being passed to the full Authority.
- e) To approve the establishment of an Audit Committee to meet 3 times per year constituted as described in paragraph 3.10(b) of the report.
- f) To approve the establishment of a Staffing, Appointments and Appeals Committee with the role and membership as described in paragraph 3.10(c) of the report.
- g) That routine shareholder decisions in relation to Border to Coast which fall outside the Authority meeting cycle may be taken by the Fund Director in consultation either with the Vice-Chair or the s41 members.

- h) That officers bring forward an amended constitution for adoption at the Authority's next Annual Meeting.
- i) To approve the institution of an Urgent Business Procedure as set out in paragraph 3.17 of the report.

18 CONTRACT STANDING ORDERS

A report was submitted to seek approval of updated Contract Standing Orders.

Members were informed that the Authority's Contract Standing Orders were last reviewed in 2016. Recent procurement exercises had identified some deficiencies in the Contract Standing Orders, in particular the fact that they did not accommodate recent regulations requiring the use of electronic tendering.

The revised Contract Standing Orders fully incorporated e-procurement as the standard means by which the Authority would operate, and in addition the Authority had signed up to Yortender, the regional procurement portal to facilitate that.

Further work was being done with Barnsley MBC's procurement team to finalise a complete contract register which would be published on the Authority's website.

RESOLVED: That the Authority approve the revised Contract Standing Orders, as set out at Appendix A to the report, for immediate inclusion in the Authority's constitution.

19 GENDER PAY GAP

The Authority considered report which provided details of the organisation's gender pay gap.

Members noted that in terms of action to be taken to address the pay gap, steps would be considered as part of the HR and Organisational Development Strategy which was to be developed as part of the corporate planning process.

RESOLVED: That the report be noted.

20 GOVERNMENT ACTUARY'S DEPARTMENT SECTION 13 VALUATION

A report was submitted to make members aware of the result of the Government Actuary's 2016 Section 13 Valuation of the Local Government Pension Scheme and highlight implications for the Authority.

GAD look at LGPS as a whole and the individual funds using four themes.

Compliance: GAD concluded that the aims of s13 had been met in the local valuations. They commented that more consistency in presentation and the definitions used in valuations had been achieved.

Consistency: GAD made a recommendation for the fund actuaries in terms of the presentation of disclosures within the valuation reports. They made a recommendation that the Scheme Advisory Board look to achieve greater consistency in assumptions unless specifically justified by local factors.

Solvency: With regard to solvency, GAD noted an overall improvement in funding levels but noted issues with a number of individual funds which are furthest away from full funding or are potentially at risk in a stress situation. South Yorkshire was one of the four funds flagged as amber in relation to an asset shock test. GAD had determined that they would flag funds where an asset shock would result in a contribution increase for statutory employers of 3% or more of core spending power. Members were reminded that SYPA had put in place its equity protection strategy in, consultation with the statutory employers, to protect the fund against the sort of shock that GAD was testing in this case. Officers had made this point to GAD who acknowledged this in their report in positive terms.

Long-term cost efficiency: GAD noted the overall improvement in funding levels, but highlighted some funds which had extended their deficit recovery periods and recommended that funds reviewed their funding strategy statements to ensure that the treatment of surpluses/deficits were fair to both current and future taxpayers.

RESOLVED: That the report be noted.

21 POOLING UPDATE

The Fund Director gave members an update on activities within the Border to Coast Pooling Partnership (BCPP).

- Shareholder resolutions had been received to approve the appointment of Cllrs Sue Ellis and John Weighell as non-executive directors of BCPP.
- The last of the three equity transitions, the emerging markets portfolio, was currently taking place. It was noted that the cost of the previous transfers had been well within limits and the emerging markets was expected to be similar.
- The next meeting of the Joint Committee would be in November. Key items on the agenda included:
 - Practical measures for securing scheme member representation on the Joint Committee .
 - Annual review of the Responsible Investment policy and voting guidelines. This would be brought back for approval from the individual funds.
 - Officers had begun discussing the BCPP budget and business plan for the coming year. This would require a shareholder resolution early next year
 - BCPP continued to recruit to fill the gaps in their structure which was mainly at the moment junior investment roles.
 - The first performance report from BCPP was expected to be presented to the next meeting of the Investment Board. It was expected that BCPP's CIO would attend to present the report.

22 SENIOR MANAGEMENT ARRANGEMENTS

A report was considered which sought to secure the Authority's approval for changes in the senior management arrangements.

RESOLVED: That the Authority approve:

- a) The flexible retirement of the current Head of Finance on the basis set out in the report.
- b) The establishment of a fixed term role (to 31.12.20) at 0.4 FTE of Head of Transition.
- c) The redeployment of the current Head of Finance into the above mentioned role.
- d) The re-designation of the Head of Finance role as Head of Finance and Corporate Services from 31.01.19, and approve arrangements for recruitment into that role.
- e) The proposed changes to reporting lines and other restructuring proposals affecting the Finance Team as set out in the report.

CHAIR

SOUTH YORKSHIRE PENSIONS AUTHORITY

INVESTMENT BOARD

13 SEPTEMBER 2018

PRESENT: Councillor S Ellis (Chair)
Councillors: M Stowe (Vice-Chair), S Cox, J Mounsey,
A Sangar and I Saunders

Officers: G Graham (Fund Director), M McCarthy (Deputy Clerk), N Copley (Treasurer), S Smith (Head of Investments), F Bourne (Administration Officer) and M McCoole (Senior Democratic Services Officer)

Trade Union Members: N Doolan-Hamer (Unison), D Patterson (UNITE) and G Warwick (GMB)

Investment Advisors: T Gardener and L Robb

J Britton and N Ireland (Aberdeen Standard Investments)

Councillor A Teal and Councillor R Wraith (Observers)

Apologies for absence were received from: A Frosdick

1 APOLOGIES

An apology for absence was noted as above.

2 ANNOUNCEMENTS

None.

3 URGENT ITEMS

None.

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

RESOLVED – That Item 8 ‘Annual Review of Performance of the Commercial Property Portfolio’ would be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST

None.

6 MINUTES OF THE MEETING HELD ON 21 JUNE 2018

RESOLVED – That the minutes of the meeting held on 21 June 2018 be agreed and signed by the Chair as a true record.

7 WORK PROGRAMME

Members were presented with the Board's Work Programme to 20 June 2019.

RESOLVED – That the Work Programme be noted.

8 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.

9 ANNUAL REVIEW OF PERFORMANCE OF THE COMMERCIAL PROPERTY PORTFOLIO

The Chair welcomed James Britton and Nick Ireland from Aberdeen Standard Investments to the meeting, who gave a presentation on the performance of the commercial property portfolio over the year and the strategy going forward. It was noted that the commercial property portfolio had consistently over the long term, outperformed the benchmark.

The Chair thanked James Britton and Nick Ireland for an interesting and informative presentation.

Members and Advisors agreed that future presentations focus on the key strategic issues, and that the Board should set the framework for presentations, to ensure a greater focus towards Members' expectations and outcomes.

AT THIS POINT THE MEETING RE-OPENED TO THE PUBLIC AND PRESS

10 QUARTERLY REPORT TO 30 JUNE 2018

The Board considered the Quarterly Report to 30 June 2018.

Members noted that this was the last Quarterly Report where the Fund's investments were managed internally. Border to Coast would produce similar reports on a quarterly basis, for submission to the Board. Representatives from Border to Coast would be in attendance at the next Board meeting, in order to provide a broad economic picture, which may impact upon the strategic asset allocation, and to be held accountable for their performance.

T Gardener suggested that the representatives from Border to Coast should be regarded as external managers, when attending future Board meetings.

RESOLVED – That Members noted the report.

11 POOLING UPDATE

A report of the Fund Director was submitted informing Members of the progress in implementing the Border to Coast pooling arrangements.

Members noted that the transition process had run fairly smoothly overall, and that the final portfolios had been closer to the target than had been anticipated. As a result following the forthcoming emerging markets transition, Border to Coast would manage c.51.5% of the value of the Fund's assets by the end of September 2018.

A number of officer workshops would be held over the coming months for the 12 funds and Border to Coast, to provide an opportunity to support the development of the various products to be launched, to share information, and to identify the priority issues to focus on.

RESOLVED – That Members agreed:-

- i) The progress with the implementation of the Border to Coast pooling arrangements.
- ii) That future reporting in relation to Border to Coast investment related issues and responsible investment be included in appropriate reports on the Board's agenda rather than as a separate item.

12 RESPONSIBLE INVESTMENT UPDATE

A report of the Fund Director was presented which provided Members with an update on activity relating to responsible investment during the first quarter of the financial year.

Members noted that due to its size, the PIRC's report on the exercise of the Authority's voting rights in the period up to the end of their contract in July 2018 had not been included in the agenda pack. An online reading room for Members was currently being specified and would incorporate large technical documents of this nature for ease of reference.

A Pensions Authority seminar on the Corporate Planning Process would be held on 20 September 2018, which would provide an opportunity to address a number of key issues associated with aspects of responsible investment.

RESOLVED – That Members noted:-

- i) The Authority's voting activity prior to the transition of assets into the Border to Coast pooling vehicles.
- ii) The process for reviewing the various pool level policies by Border to Coast in the run up to the next financial year.

- iii) The issues discussed at the last LAPFF Business Meeting, and the results of the elections to the LAPFF Executive.
- iv) The complaint made against LGPS in relation to climate risk and the current position proposed by officers.

CHAIR

SOUTH YORKSHIRE PENSIONS AUTHORITY

CORPORATE PLANNING AND GOVERNANCE BOARD

18 OCTOBER 2018

PRESENT: Councillor M Stowe (Chair)
Councillors: S Ellis, A Bainbridge, S Durant, A Hurst and
K Wyatt

G Warwick (GMB)

Officers: G Graham (Fund Director), J Bailey (Head of
Pensions Administration), B Clarkson (Head of Finance),
N Copley (Treasurer), G Richards (Senior Democratic Services
Officer) and L Booth (Audit Manager)

A Lince (Deloitte)

Apologies for absence were received from Councillor A Teal
and N Doolan-Hamer

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

The Chair reminded members that the Annual Fund meeting was taking place at 5.30pm that evening at the Clifton Park Hotel in Rotherham, all were encouraged to attend.

3 URGENT ITEMS.

None.

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

None.

5 DECLARATIONS OF INTEREST

None.

6 MINUTES OF THE MEETING OF THE BOARD HELD ON 19 JULY 2018

RESOLVED – That the minutes of the meeting of the Board held on 19 July 2018 be agreed and signed by the Chair as a correct record.

7 WORK PROGRAMME

The Board considered its Work Programme.

RESOLVED – That the Work Programme be noted.

8 REVIEW OF PENSIONS ADMINISTRATION

The Board considered a report which gave an update on administration issues for the period 1 July 2018 to 30 September 2018.

Staff Changes

The Board noted that one part-time member of the Doncaster District Office had retired in early September and a Team Manager from the office at Regent Street had retired at the end of September.

The vacant Team Manager post would be covered on an 'acting up' basis to 31 March 2019 pending a wider review of the pensions administration function.

Administration Team Performance

The overall performance level for the period was 81% which was a reduction from the previous quarter. This had been anticipated due to the requirement to process all Year End returns in preparation for the issue of the Annual Benefit Statements. Members noted that this would not happen in future due to the switch to Monthly Data Collection.

With regard to the Annual Benefit Statements, the Authority issued statements to 98.52% of its eligible active members by the statutory deadline and 100% of the Preserved Beneficiary Statements.

Members were informed that in the interests of transparency, and following discussions with the Local Pension Board at their meeting earlier in the month, the breach of the statutory requirement to provide statements to all active members by 31st August would be reported to the Regulator. It was hoped that the Regulator would be satisfied by the significant improvements made and the arrangements already in place for 2019.

The Board were informed that work was ongoing to ensure that the target dates for priority cases were a true reflection of the time it took to process the cases.

The software tool to handle the complex "aggregation" cases had enabled the provision of more accurate reporting of the true level of outstanding cases. There were a total of 7,828 cases to be processed which was far higher than the estimated volumes previously reported.

A project team had been established from 1 October 2018 specifically to handle these cases. It was anticipated that it would be a six month process and would be reported to the Board on a quarterly basis.

Employer Performance against SLAs

The Board noted the tables which detailed the Monthly Data Collections (MDCs) expected and received during the months of June, July and August 2018; these were much improved.

There had been continuous engagement with Capita and, although there was some legacy issues, monthly returns had now been received satisfactorily for all three months.

J Bailey informed the Board of new projects to review how the monthly collection process could be developed to improve process efficiency for SYPA and employers.

Staffing Issues

Certified sickness absence had reduced slightly in comparison to the previous quarter.

Complaints

There had been four formal complaints during the reporting period; all had been responded to within the 3-day target response time.

RESOLVED: That the report be noted.

9 BUDGET MONITORING: QUARTER 2

A report was submitted to advise Members of current expenditure levels within the Authority against the approved budget.

The Board noted that there were no unexpected major variances.

Members were informed that the Authority had acquired a new scheme member website which would improve interaction with scheme members. This would cost around £83,000 in the current financial year and would be funded from savings across employees, printing, the sale of software and charges under the Administration Strategy.

RESOLVED: That the report be noted.

10 TREASURY MANAGEMENT: UPDATE

The Board considered a report which gave an update on the treasury management operations of the Authority since the last report in June 2018.

Members noted the following:

- In August the Bank of England Monetary Policy Committee increased the Bank Rate by 0.25% to 0.75% leading to an increase in returns.

- During the period the Debt Management Office facility had not been used.
- Current cash levels were still relatively high but had been reduced gradually over the period.
- The Authority's overdraft facility was renewed on 1 September 2018; this was not used during the period.
- The Authority kept the 'Affordable Borrowing Limits' under review. During the period there had been no need to borrow and the limits had not been breached.

RESOLVED: That the report be noted.

11 KPMG ANNUAL AUDIT LETTER

The Board considered KPMG's final Annual Audit Letter which signed off its work for 2017/18. No substantive issues had been raised.

A Lince from Deloitte, the Authority's new external auditors, was introduced to the Board.

KPMG's files would be reviewed early in November and an Audit Plan developed. The transfer of assets to BCPP was a significant change within the Fund and would lead to a substantial piece of work.

RESOLVED: That the report be noted.

12 INTERNAL AUDIT PROGRESS REPORT: QUARTER 2

L Booth presented the Internal Audit progress report for the period 1st April 2018 to 30th September 2018. The report was in a new style format following feedback from members of the Board.

The Board noted that 29% of the planned days had been delivered. The plan was profiled more heavily to quarters 3 and 4 on the advice from the Fund Director and the Head of Pensions Administration to allow them to fully inform the remainder of the 2018/19 plan.

The report detailed the work completed, the work in progress and peripheral work of the Internal Audit team.

RESOLVED: That the report be noted.

13 CONTRACT STANDING ORDERS: TENDER REPORT

A report was submitted which detailed awarded contracts as required under the Authority's Standing Orders. The report covered the period from October 2017 to the end of September 2018.

Members were informed that the new Contract Standing Orders, approved at the Authority's last meeting, required specific reporting to members in a variety of circumstances and appropriate arrangements would be made within future work plans.

RESOLVED: That the report be noted.

14 RISK REGISTER

The Board considered the Authority's Risk Register.

Members were informed that the Register had undergone a significant review and each risk had been re-scored from first principles.

In undertaking the review, no previously identified risks had been omitted, they were either incorporated within new risks or remained as they were.

The Board noted that a further detailed assessment of the risks and opportunities facing the Authority would be undertaken following completion of the new Corporate Strategy. This work would place emphasis on opportunities as these had not previously been captured.

RESOLVED: That the report be noted.

CHAIR

This page is intentionally left blank

SOUTH YORKSHIRE PENSIONS AUTHORITY

LOCAL PENSION BOARD

4 OCTOBER 2018

PRESENT: J Thompson (Employer, Action Housing) (Chair)
G Berrett (Employer, SYP), N Gregory (Academy Representative), S Ross (Scheme Member) and G Warwick (GMB)

Officers: J Bailey (Head of Pensions Administration),
G Graham (Fund Director), M McCarthy (Deputy Clerk) and
G Richards (Senior Democratic Services Officer)

N Wilson (The Pensions Regulator)

Apologies for absence were received from N Doolan-Hamer
and K Morgan

1 WELCOME AND APOLOGIES

The Chair welcomed everyone to the meeting, including Neil Wilson from The Pensions Regulator.

Members were informed that Nicola Simpson had resigned from the Board, the Chair thanked her for her contribution to the Board's work.

Apologies were noted as above.

2 DECLARATIONS OF INTEREST

None.

3 ANNOUNCEMENTS

M McCarthy informed the Board that the Authority's chair, Cllr Sue Ellis, had been appointed to the BCPP Board as a Non-Executive Director. This was positive news as it ensured that LGPS views would be represented on the Board.

Members were informed that the Annual Fund meeting would be held on 18 October 2018 at 5.30pm at the Carlton Park Hotel in Rotherham, all members were encouraged to attend.

The Employers Forum would be held on 29 November 2018 at the Holiday Inn, Dodworth.

4 MINUTES OF THE MEETING HELD ON 7 JUNE 2018

The Whistleblowing Policy would be brought to the Board's meeting in January. Members were informed that the document could be viewed on the Authority's website.

With regard to cyber-crime insurance, A Hunt had confirmed that the Authority did not have any such policy. The insurance was cost prohibitive and had a number of policy conditions that made the insurance somewhat limited.

G Graham informed the Board that there would be an insurance policy review within the next few months where this would be looked at again.

J Bailey reassured the Board that the network had been externally tested, including penetration tests. Subject to confidentiality, the results could be shared with the Board.

N Wilson from The Pensions Regulator commented that from the Regulators' perspective, the Board did not need public indemnity insurance as it was not a decision making body.

RESOLVED: The minutes of the Board held on 7 June 2018 were agreed as a correct record.

5 PRESENTATION FROM THE PENSIONS REGULATOR

Neil Wilson from The Pensions Regulator (TPR) gave the Board a presentation. The presentation included:

- The role and responsibilities of TPR and Local Pension Boards.
- TPR's expectations.
- Governance and internal controls.
- The importance of good data
- Communication.
- Reporting a breach; and
- The need for cyber resilience.

N Wilson informed the Board that they could book further more detailed sessions from TPR through the website.

The Chair thanked N Wilson for an interesting and informative presentation.

6 WORK PROGRAMME

The Board considered its Work Programme.

G Graham commented that if the Board accepted the revised Terms of Reference, which was later on the agenda, the Work Programme would be populated further.

The aim was to avoid replication from Authority and Board meetings and to look at key thematic areas.

With regard to Internal and External audit issues the Board's role was to check that management had responded properly to any recommendations. Likewise, it was not within the Board's remit to review the Risk Register, the Board needed to be satisfied that the Authority had a Risk Register and that it was fit for purpose.

RESOLVED: The Board noted the Work programme, acknowledging that it would be developed further in the coming months.

7 LOCAL PENSION BOARD BUDGET

Members were presented with the Board's expenditure to quarter ending 26 September 2018.

RESOLVED: That the budgetary position be noted.

8 GOVERNANCE - CONSTITUTION & TERMS OF REFERENCE

The Board considered a report which made recommendations for revised Terms of Reference and formalised the Board's decision at its last meeting to reduce the Membership of the Board to ten.

Members were reminded that Section 5 of the Public Service Pensions Act 2013 defined the functions of a Pension Board as:

- (1) Scheme regulations for a scheme under Section 1 must provide for the establishment of a board with responsibility for assisting the scheme manager (or each scheme manager) in relation to the following matters.
- (2) Those matters are –
 - (a) securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
 - (b) securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator;
 - (c) such other matters as the scheme regulations may specify.

The Pensions Regulator strongly expressed the view that the focus of the work of Local Pension Boards within the LGPS should be on issues such as performance of the administration function, data quality and compliance with Code of Practice 14, and not on investment issues and wider organisational matters.

The revised Terms of Reference, set out in Appendix A to the report, had been developed by officers in consultation with the Chair and Vice-Chair of the Board with these factors in mind.

G Graham informed the Board that the regulations under which the Local Pension Boards were established emphasised the potential conflict of interest which existed between being a member of the Administering Authority/Pension Committee and the Local Pension Board. In South Yorkshire two trades union representatives sat

on both the Authority and the Local Pension Board. This was not good practice and officers would discuss with the Trade Unions how to resolve the issue.

RESOLVED: That the Board:

- a) Recommend to the Pensions Authority the revised Terms of Reference for the Local Pension Board as set out in the Appendix to the report.
- b) Recommend to the Pensions Authority the revised membership arrangements for the Local Pension Board as set out in the report.

9 ANNUAL BENEFIT STATEMENTS - REVIEW OF THE 2018 PROCESS

A report was submitted to update members on the progress of the exercise to issue Annual Benefit Statements to active and deferred members.

Members were reminded that under the provisions of the Public Service Pensions Act 2013 each LGPS fund was required to issue an estimated Annual Benefit Statement (ABS) to every active and deferred member by 31 August of each year.

This target had not been met for the last three years due to various factors including late year-end submissions from some employers, system issues and general workload pressures.

In 2017 SYPA reported to the Pensions Regulator in May of that year, well ahead of the August deadline, that it did not expect to meet the target date. One of the main reasons cited was the workload pressures caused by preparation for the move to monthly data collection, intended to provide a long-term solution to the ABS production process. Subsequent correspondence followed and no further remedial action was taken by the Regulator.

In 2018, SYPA strengthened the level of engagement with employers in respect of the submission of year-end returns and made changes to the Administration Strategy which enabled SYPA to make a penalty charge for late year-end submissions.

Although 100% compliance was not achieved by the deadline of 11 May 2018 for receipt of year-end returns, a year-end return of 100% was received by 31 August.

The net result was that statements were issued to 44,176 members and all employers were represented amongst this number. This equated to at least 98.6% of the members recorded as being active as at 31 March 2018.

With regard to the production of ABS's for deferred members which was not reliant on the submission of year-end returns, SYPA successfully issued 100% of the ABS's to deferred members before the 31 August deadline.

The shift to monthly data collection would mean that the production of the ABS's in 2019 could commence as soon as the March monthly data had been received.

This should mean that SYPA could phase the production of the ABS's over an extended period and meet the statutory deadline.

As part of the 2018 ABS exercise, members were advised that all statements from 2109 onwards would only be available online, unless a member specifically requested a paper copy.

In response to a question from a Board member, J Bailey confirmed that no complaints had been received regarding the late receipt of ABS's.

The Board and officers discussed whether the breach had been material and should be reported to the Regulator.

The Board recommended that the breach should be reported as it would show an improvement in the process.

RESOLVED – That the Board noted the progress made with the 2018 exercise and the noted the plans in place for 2019.

10 ADMINISTRATION AND EMPLOYER PERFORMANCE

J Bailey presented a report to update members on administration issues for the period 1 April 2018 to 30 June 2018.

Members were informed that, following discussions with the Chair and Vice-Chair, it had been agreed that a report would be provided on a quarterly basis on the performance of the administration team as well as the level of engagement and compliance from employers. This would allow the Board to comment on any areas where further information or explanation may be required.

The performance level during the period of 87% compared favourably with the casework performance for the 2017/18 year overall of 82%.

The report contained a table which showed the casework areas broken down by subject type according to SYPA's Customer Charter.

It was felt that some of the targets were unrealistic. J Bailey informed the Board that the statutory target for a transfer out was three months, but currently SYPA's target for this category was five days.

The administration team would consult with a selection of scheme members to assess whether the target days set out in the Customer Charter were relevant and whether members would prefer focus on other areas. The results of this would be shared with the Board.

With regard to the backlog of aggregation cases that had been on hold awaiting software development, a dedicated project team had been set up from 1 October 2018 specifically to work on the backlog of aggregation cases now that the automated software was in place. Progress on resolving these cases would be included as part of the quarterly update.

The report contained a table which reflected the performance of the four District Councils and remaining employers in respect of retirement notifications.

With regard to monthly data collection (MDC), the Board were informed that employers were required to submit monthly returns by the 19th of the month. The table included in the report showed that in April and May there were 42 and 43 outstanding MDCs respectively. Of these, 40 were contributable to employers who used Capita payroll services.

The poor performance of Capita in respect of MDC and other ongoing areas of administration had been escalated to Capita senior management. The MDC files for employers using Capita had now been brought up to date.

RESOLVED: That the report be noted.

11 COMPLAINTS, COMPLIMENTS AND BREACH REPORTING

The Board considered a report which gave an update on reported breaches and provided details of the complaints reporting for Quarter 1.

Members were reminded that SYPA's Reporting Breaches Procedure set out that all breaches, whether material or not, should be recorded and presented to the Local Pension Board on a quarterly basis.

The Board noted that five breaches had occurred since the last Local Pension Board meeting, all of which were data related. Three of the breaches were caused by individual errors in the administration team and two were caused by errors made by employers or their payroll providers.

The nature of the breaches was set out in an Appendix to the report, and all had initially been flagged as not material; the Board were invited to review these if they did not consider the ratings or actions taken to be sufficient.

The Board requested an extra column be added to the table to show whether the breach had been reported to the Data Protection Officer.

With regard to formal complaints, there had been four within the period. All had been responded to within the three day target response time.

REOLVED – That the report be noted.

12 GUARANTEED MINIMUM PENSIONS RECONCILIATION

A report was submitted to update members on the progress of the exercise to reconcile GMP records between SYPA and HM Revenue and Customs.

The report detailed the reconciliation process, progress to date, the impact on scheme members and next steps. It was noted that that outcome of the reconciliation process would not be known until the spring of 2019.

RESOLVED- That the report be noted.

13 MEMBER LEARNING & DEVELOPMENT

It was noted that several Board members would be attending the Fundamentals training; a limited number of places had been offered to Board members on the BCPP Annual Conference in Leeds.

There would be more focus to ensure that training offered met the Board's requirements, members were asked to inform officers if they felt there were gaps in their knowledge.

With regard to GDPR training for employees, this was ongoing and being supported by Barnsley MBC. There was a possibility it could be offered to Board members in the future.

A Risk Workshop would also be arranged for Board members in the future.

14 ANY OTHER BUSINESS

The Board were informed that BCPP's Joint Committee had at its last meeting agreed in principle to allow non-voting scheme member representation on the Joint Committee.

At their next meeting in November the Committee would be considering proposals for how many scheme members would be invited to join the Joint Committee and how they would be selected. There was a possibility they would be selected from Local Pension Board members.

CHAIR

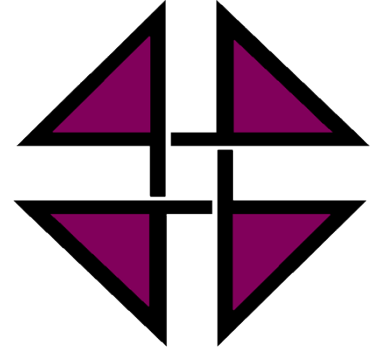
This page is intentionally left blank

South Yorkshire Pensions Authority – cycle of future meetings

Authority Meetings

Agendas	4 October 2018	22 November 2018	17 January 2019	14 March 2019
Business Items	Minutes	Minutes	Minutes	Minutes
	Work Programme	Work Programme	Work Programme	Work Programme
	S41 Feedback	S41 Feedback	S41 Feedback	S41 Feedback
	Local Pension Board Annual Report			Meeting Dates of Authority and Boards
	Senior Management Arrangements			
Board Scrutiny	Call-Ins	Call-Ins	Call-Ins	Call-Ins
Governance Matters	CP&GB Audit Committee Functions Annual Report	FoIA Annual Report Publication Scheme	Members Self-Assessment Report	Treasury Management Statement
	Gender Pay Gap	Budgets and Revised Estimates	Budgets and Revised Estimates	
	Governance Arrangements			
	Contract Standing Orders			
	Government Actuary's Dept S13 Valuation			

	4 October 2018	22 November 2018	17 January 2019	14 March 2019
Service Delivery	Q1 Snapshot Report	Q2 Snapshot Report		Q3 Snapshot Report
	Pooling Update	Framework for the 2019 Actuarial Valuation		Actuarial Valuation 2019
Training & Development				



**SOUTH YORKSHIRE
PENSIONS AUTHORITY**

Business Planning and
Performance Framework 2018/19
for the Pensions Service
and Pensions Authority

**Performance Snapshot Report
2018/19: Q2**

ISSUED: November 2018

The strategic framework in outline

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

- 6: Effective and Transparent Corporate Governance
- 6.1: Clarifying functions and roles towards delivering a common purpose
 - 6.2: Promoting good governance through upholding high standards of conduct and behaviour
 - 6.3: Developing the capacity and capability of members and officers to be effective
 - 6.4: Ensuring robust accountability

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

Pensions Service Strategic Objectives

1. The Best

Area under Review	Activity During Quarter	Target	Status/Comment
Transactions with Members	16,052 cases of which 81% were on target. This compares with 13,015 cases at 87% achieved during Q1.	97%	Reduction in performance from Q1 is a consequence of resources deployed to complete Year End Work (for the final time) and issue ABS's within statutory timeframes. Number of cases processed increased however.

2. Investment Returns

Area under Review		Target	Status/Comment
Fund Value	£8333.5m	N/A	£8210.5m at end June.
Performance Against Benchmarks	Qtr 1.6% Equity protection reduced the return by 0.4% YTD 4.3%	Qtr 1.4% YTD 4.6%	Global economic growth prospects have deteriorated in the last few months. The slowdown has been broad based with trade disputes, Brexit, rising interest rates and the

Staff Training	4 members of the Member Services team sat their first professional examination towards their PMI Diplomas in Pensions Administration. All 4 passed and will sit a further two exams next September and two more each year thereafter, if successful, until all 7 exams have been passed.	Plan 100% up to date	GDPR class room training rolled out to all staff (one sweep up session to follow in November.
Sickness Monitoring	3.7% total	None	A very modest reduction in sickness of 0.6% compared with previous quarter.

5. Pensions Planning

Area under Review	Activity During Quarter	Target	Status/Comment
Interactive Facilities	12 new employer contacts registered for EPIC this period MyPension	N/A	478 employers now registered for Epic. Only 1 employer (covering 1 active member) not registered. Registration is still on the increase with 2,992 new registrations this quarter taking the number of members registered in total to 11,973
Face to Face Communication	478 Advisory Sessions Held. Move to reduce high volumes of face to face	Less than 0.5% complaints	5 complaints received overall– 2 again relating to delays associated with aggregation of

	sessions where not required to allow staff to concentrate on efficient handling of case work. 157 fewer appointments than last quarter.		previous benefits from Police TUPE Transfers, 1 relating to the way an employer was dealing with an acting up situation from a pension point of view, one complaint relating to non provision of a PB Statement (this should have been provided by former employer prior to the TUPE Transfer to South Yorkshire), and one complaint that his employer had not deducted contributions for 15 months
Employer Activity	4 New Employers (2 Academies, 2 Contractors) 0 Terminations	N/A	There are currently 598 employers, of which 479 have active members.

Pensions Authority Strategic Objectives

6. Effective & Transparent Corporate Governance

Area under Review	Activity During Quarter	Target	Status/Comment
Internal Audit		100%	On target
Annual and Quarterly Reports			
External Audit	July – External Audit	100%	On target
Reports /Plans	Annual Governance Report considered by CP&GB		

Area under Review	Activity During Quarter	Target	Status/Comment
	July – Letter of Representation considered by CP&GB		
Risk Management Annual and Quarterly Reports	July - Risk Register considered by CP&GB	100%	On target
Constitution Policy /Procedure		100% Up to date	
Financial Reporting	July - Budget Monitoring report considered by CP&GB July – Statement of Accounts considered by CP&GB	100% achievement of reporting schedule	On target.
Annual Governance Statement Conclusion		No Significant Weaknesses	Actions continuing.
Annual Self-Assessment			No significant issues
Member Training	September - 7 members attended Corporate Strategy & Investment Beliefs Seminar September – 1 member attended LGC conference	100% Induction & fundamentals training &	92% had induction. 67% had fundamentals training

This page is intentionally left blank

SOUTH YORKSHIRE PENSIONS AUTHORITY

22 November 2018

Report of the Clerk

FREEDOM OF INFORMATION ACT 2000: ANNUAL REPORT

1. Purpose of the Report

This report provides Members with an update of Freedom of Information requests.

2. Recommendations

Members are recommended to note the report.

3. Background Information

This is the twelfth annual report of requests received under the Freedom of Information Act 2000.

4. Requests received

4.1 Summary of requests

	Investments	Administration	Total
Nov 2017 - Oct 2018	18	5	23
Nov 2016 - Oct 2017	21	1	22
Nov 2015 - Oct 2016	21	0	21
Oct 2014 - Oct 2015	26	1	27
Oct 2013 - Sep 2014	12	1	14
Nov 2012 - Sep 2013	18	2	20
Oct 2011 - Oct 2012	13	2	15
Oct 2010 - Sep 2011	6	6	12
Oct 2009 - Sep 2010	11	6	17
Oct 2008 - Sep 2009	14	2	16
Nov 2007 - Sep 2008	10	5	15
Aug 2006 - Oct 2007	12	2	14
Jan 2005 - July 2006	13	4	17

4.2 Most requests relate to information on investment holdings, mainly in respect of private equity holdings or to issues surrounding them.

- 4.3 The Authority has responded to all requests within the 20 day limit required by the Act.
- 4.4 All the information applicants have asked for has been provided where it is held.
- 4.5 The Authority has made no charges, either for retrieving information, or for photocopying and postage.
- 4.6 The Authority has received no complaints or requests for internal reviews in relation to any disclosure.
- 4.7 The Authority has spent at least 50 hours of officer time in completing these requests.
- 4.8 Most applicants have been data collecting commercial organisations.
- 4.9 The Authority has begun to schedule the production of some information which is regularly requested as part of its normal reporting processes and then publishing the information on its website so as to reduce the requirement for requests to be made in the first place.

5. Publication Scheme

The Authority has adopted the model publication scheme prescribed by the Information Commissioner, which sets out the routine publication of information, which is not exempt under the Act.

6. Re-use of public sector information

New regulations came into force in July 2015 entitled "The Re-use of Public Sector Information Regulations 2015". These require public sector bodies to:

- Allow re use of public sector information by anyone;
- Remove copyright restrictions preventing re use of such information;
- Allows anyone the right to aggregate, add value or repackage the information, and make money out of it.

The impact on the authority is not considered to be any greater than the current use of private equity data by commercial organisations.

7. Implications

- 7.1 This report has the implications noted below:

Financial - There are no significant costs arising out of this report other than the officer time identified in preparing responses.

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

Diversity - There are no diversity implications of this report.

Risk - There are risks of a failure to meet the 20 day deadline required by the Act, due to the pressure of work. However, this risk is judged to be minor, and is addressed by a process of gradually placing more and more routinely requested information into reports published on the Authority's website.

D Terris
Clerk

Officer responsible:
George Graham
Fund Director
Tel 01226 772887

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

This page is intentionally left blank

SOUTH YORKSHIRE PENSIONS AUTHORITY

22 November 2018

Report of the Treasurer

REVENUE BUDGET FOR 2019/20 AND REVISED BUDGET FOR 2018/19

1 Matter for consideration

To secure approval of the Authority's draft revenue budget for 2019/20, and to approve the levy under the Levying Bodies (General) Regulations 1992.

2 Recommendations

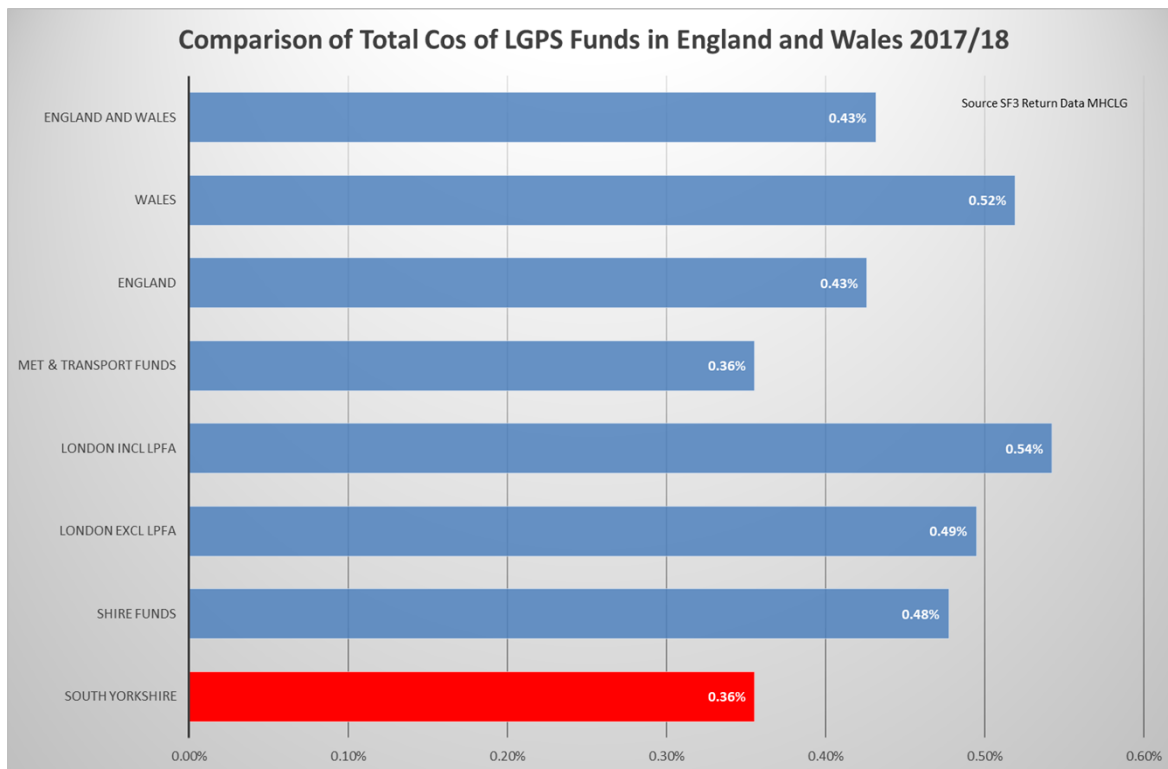
Members are asked to:

- (i) **Approve the revised budget for 2018/19 in the sum of £5,336,300**
 - (ii) **Approve a total levy of £436,000 for 2019/20 in accordance with The Levying Bodies (General) Regulations 1992, allocated to the District Councils as set out in para 5.1.**
 - (iii) **Note the draft budget for 2019/20, and refer it to the District councils for comment.**
-

STRATEGIC PLANNING

3 Background and Context

- 3.1 The Pension Fund's costs do not fall directly on Council Tax. Expenses are met from the Fund, in accordance with the Regulations. Employers contributions include an allowance for the costs of administering the Fund (at the 2016 valuation, this has been estimated at 0.4% of Pensionable Pay) which is reassessed at each valuation, while investment expenses are allowed for implicitly in determining the discount rates.
- 3.2 One of the Authority's key strategic objectives is to operate cost effectively. Published data which are summarised in the graph below show that the South Yorkshire Fund's total costs fall below the average despite there being considerable inconsistencies in the reporting of investment costs which SYPA fully accounts for.



- 3.3 A low cost starting point does not absolve the Authority from maintaining its focus on controlling costs in order to demonstrate some solidarity with many of the Fund's employers who are facing very significant financial pressures.
- 3.4 In the long run, the Authority can assist employers to cut budget requirements in two ways. Firstly and by some margin most significantly by delivering investment returns that exceed the assumptions made by the actuary in setting contributions. This is a matter for the valuation and the investment strategy review. Secondly, by minimising its own running costs which is the subject of this report.
- 3.5 As Members are aware this report is presented against a background of the transfer of more than 50% of the fund's assets into the pooling structures provided by Border to Coast. The remaining assets to transfer will do so over the period to 2020. The previous budget (for 2018/19) had to be set based on a number of assumptions about the costs which SYPA would see transferred to Border to Coast and the charges which we would receive from them. The details of the new costs resulting from the transition of assets are now clearer and will become clearer still once Border to Coast has finalised its budget for the next year in the coming months. However, while the transfer of the Investment Team and associated changes result in reduced costs within the Authority's budget the fees which come back to us from Border to Coast are a direct charge to the Pension Fund, thus there appears to be a significant reduction in the Authority's budget.
- 3.6 The Authority has always sought to manage within its budget and, as shown in the table below, has consistently achieved underspends over the last few years. These underspends have, where possible within the policy on reserves been added to reserves in order to provide resources for investment and to meet one off costs such as the changes to accommodation in the current year.

Year	Original Budget £000	Revised Budget £000	Outturn £000	Variance £000	Original Use of Reserves £000	Actual Use of Reserves £000
2013/14	5,418	5,381	5,297	-84	60	0
2014/15	5,434	5,437	5,238	-199	46	0
2015/16	5,761	6,120	5,908	-212	50	0
2016/17	6,337	6,503	6,376	-126	50	0
2017/18	7,173	7,277	7,134	-143	0	0
2018/19	8,981 restated to 5,317	5,336				

- 3.7 The Authority has already agreed to adapt both its organisation and its governance arrangements to respond to the advent of pooling, the new Corporate Strategy which will be presented for agreement in the New Year will also reflect a significant change agenda to both manage the key risks that we face and to ensure a focus on customer service. Where possible, as can be seen in the commentary on the 2018/19 revised estimates in year variations and reserves will be used to fund activity of this sort. However, the Authority is likely over the planning period to have to consider providing some one off investment in order to support the delivery of its objectives. Such investment will need to be considered within the context of a framework of rules which will be contained in the Medium Term Financial Strategy which will accompany the Corporate Strategy.

4 Preliminary financial forecasts

This report sets out the detailed revenue estimates on a 'continuation of service' basis for 2019/20 together with a revised estimate (or probable outturn) for 2018/19 (Appendix A). A forecast for the Fund Account for 2018/19 and 2019/20 is also provided which shows how the Authority's costs together with those charged directly to the Fund are forecast to change over the period (Appendix B).

The Budget is presented in a new cost centre format which more clearly aligns budgets with individual managerial responsibilities.

The Authority is also asked to approve the levy for 2018/19 in respect of expenditure which is not borne by the Pension Fund (see Para 5.1).

The following are attached in support of the above:-

Appendix A - summary of the revised 2018/19 estimates and 2019/20 estimates set out in the new format to align with management responsibilities

Appendix B - Fund account forecasts for 2018/19 and 2019/20 giving estimates of all costs charged to the Fund.

4.1 2018/19 Revised Estimates and Probable Outturn

The original budget for 2018/19 was approved in January 2018 at £8,981,300. This budget included no provision for use of reserves, but subsequently the use of up to £75,000 of reserves in relation to the move to Gateway was approved, along with costs of some other management changes to allow for a reorganisation within the management team following the flexible retirement of the Head of Finance.

The revised estimates for 2018/19 show a change in resources required to fund the Authority's activities of £21,400 as shown in the table below:

	£000	£000
2018/19 Original Budget	8,981	
Adjustments		
Add District Office costs	449	
Less Costs charged directly to Fund	-4,113	
2018/19 Restated original budget		5,317
Variations		
Employees - Administration	-64	
Employees – Investment / Finance (originally approved from reserves)	101	
Employees – relocation costs	20	57
Printing costs	-20	
New member web functionality UPM	83	63
Extra income generated from sales / strategy	-39	
Reduced recharge income for network	15	-24
Reduced system costs for Fund managers	-103	
Work on corporate strategies including Procurement	25	-78
Other minor changes	1	1
2018/19 Probable Outturn		5,336

The main variations being the restatement of the original budget to include the costs of the district offices and to remove the costs which are now directly charged to the fund (custody, external managers and BCPP costs). This change places SYPA's operating budget on a comparable basis with those of other administering authorities. The other significant variations are:

- Changes to the structure of the investment team (approved by the Authority in March) to enable management of legacy assets and performance monitoring and asset allocation.
- Changes to the management structure, approved in October to accommodate the flexible retirement of the Head of Finance.
- New functionality on UPM to improve communication with members, this being funded from savings within Administration turnover and extra income generated through software sales.
- One off costs such as relocation associated with recent recruitment.
- A significant saving in system costs following the transfer of investment staff to Border to Coast.

The Authority has a corporate strategy reserve which at 1.4.18 stood at £217,735. The above figures assume the use of up to £75,000 from this reserve to support the move to Gateway. As the move has not yet taken place there are still costs to be determined but they are not expected to amount to the full £75,000. Other costs had been approved to

come from the reserve but have actually been included in the figures above, in order to maintain the level of reserves to deal with the wider change agenda likely to flow from the Corporate Strategy.

It is anticipated that the final outturn for 2018/19 could actually still give a small saving against the budget above in which case this could be used to fund some of the costs of the accommodation move and further reduce pressure on the Corporate Strategy reserve.

5 2019/20 Levy

- 5.1 The levy for 2019/20 is calculated at £436,000 to be charged across the 4 lead district councils based on the Council Tax Base for each district as shown in the table below:

Council	Levy forecast 2019/20 £
Barnsley MBC	78,650
Doncaster MBC	100,850
Rotherham MBC	86,600
Sheffield CC	169,900
Total	436,000

6 2019/20 Original Budget

- 6.1 The initial planning guideline for 2018/19 was a 'continuation of service' budget based on maintaining current levels of service. This includes provision for the nationally agreed 2% pay award (at the lower end of the pay scales this actually amounts to over 7%) and restructuring of the pay spine together with inflation specifically provided for in contracts.
- 6.2 The budget for 2019/20 to maintain the current level of service is shown in Appendix A at £5,445,600 against the restated base 2018/19 budget of £5,317,000. The main changes are summarised in the table below:

	£000	£000
Original Budget 2018/19 (restated see 4.1)		5,317
Inflation – Pay	146	
Non Pay	28	
		174
Employees - Increments	43	
Increased Pension conts/ NI	25	
Increased professional training	8	76
Reduced recharge income for network	15	
Actuarial costs	25	
UPM services	16	56
Reduced investment systems and information services	-180	-180
Other minor changes	3	3
Original Budget 2019/20		5,446

- 6.3 As can be seen at paragraph 3.6 the Authority has consistently managed to underspend its annual budget. This has enabled a small Corporate Strategy Reserve to be established for the purpose of 'smoothing' cost impacts as far as possible. This Contingency Reserve is to be used for the cost of moving offices and to fund further costs relating to GDPR up to agreed levels. The budget proposed for 2019/20 does not assume any further use of this reserve at this stage.

7 Implications of making further changes to the budget

- 7.1 The budget has been produced on a standstill basis, and continues to make assumptions about the impact of pooling on elements of the cost base. As indicated above the Corporate Strategy (at least in draft form) will come forward in time for the final approval of the budget providing members with the opportunity to consider whether they wish to make further changes to the budget. In the meantime members are asked to indicate whether they wish any specific area to be explored to achieve reductions as part of this budget round.
- 7.2 The impact of the standstill budget on the overall cost ratio illustrated in the graph above would be to move it from 0.36% to 0.38% bearing in mind that this includes all management costs for the fund including external management fees and charges linked with alternative investments which are not always consistently reported across funds. Changes to reporting standards which will be introduced from 2018/19 are likely to see a very significant increase in the costs reported by other funds while the change for SYPA will be fairly small, thus we are likely to continue to be one of the lower cost funds.

8 Other Implications

- 8.1 Legal
There are no legal implications.
- 8.2 Diversity
There are no specific diversity implications.
- 8.3 Risk
The Authority is the formal decision-making body for all matters regarding the LGPS and needs to be in a position to monitor and respond to changes that affect the working of the Scheme. There is an unquantifiable reputational risk associated with failing to do so.

N Copley
Treasurer

Officer responsible: Bev Clarkson, Head of Finance, South Yorkshire Pensions Authority
Background papers used in the preparation of this report are available for inspection at the South Yorkshire Pensions Authority.

Other sources and references: none

SOUTH YORKSHIRE PENSIONS AUTHORITY

APPENDIX A

BUDGET REPORT	2018/19					2019/20								
	Original Estimate 18/19	Adjust	Restated Base 18/19	Variance	Virements	Revised Est Base 18/19	Inflation 2% pay 2.5% prices	Volume & others	Growth	Savings	Original Estimate 19/20			
INVESTMENTS	5,790,700	-	4,835,300	955,400	-	39,400	-	916,000	19,700	4,900	188,500	-	383,600	784,900
FINANCE	-		497,000	497,000	52,800	-		549,800	19,500	11,000	3,000		-	530,500
ADMINISTRATION	3,190,600	-	411,500	2,779,100	-	26,700	-	2,752,400	102,400	71,300	25,000	-	20,000	2,957,800
IT	-		631,000	631,000	8,800	-		639,800	21,500	20,500	34,100	-	200	706,900
MANAGEMENT & CORPORATE COSTS	-		373,250	373,250	26,900	-		400,150	9,400	-	-		-	382,650
DEMOCRATIC REPRESENTATION	-		81,250	81,250	-	3,100	-	78,150	1,600	-	-		-	82,850
	8,981,300	-	3,664,300	5,317,000	19,300	-		5,336,300	174,100	107,700	250,600	-	403,800	5,445,600
TOTAL AUTHORITY BUDGET														5,445,600
BUDGETED DRAW DOWN FROM RESERVES														
NET AUTHORITY BUDGET														5,445,600

SOUTH YORKSHIRE PENSIONS AUTHORITY

BUDGET REPORT	2018/19					2019/20							
	Original Estimate 18/19	Adjust	Restated Base 18/19	Variance	Virements	Revised Est Base 18/19	Inflation 2% pay 2.5% prices	Volume & others	Growth	Savings	Original Estimate 19/20		
INVESTMENTS													
Staffing	938,300	-	633,400	304,900	48,700	-	353,600	10,500	4,900	188,000	-	194,100	314,200
Training Exps	18,000	-	13,500	4,500	1,000	-	5,500	-	-	-	-	-	4,500
Other Indirect EE's Expenses	8,100	-	4,750	3,350	9,900	-	13,250	-	-	-	-	-	3,350
Rent & Service Charge	49,000	-	32,000	17,000	-	-	17,000	400	-	-	-	-	17,400
Transport Expenses	12,500	-	6,250	6,250	-	-	6,250	-	-	500	-	-	6,750
Equipment, Furniture & Materials	7,000	-	4,050	2,950	-	-	2,950	-	-	-	-	-	2,950
Publications	5,000	-	1,000	4,000	-	-	4,000	-	-	-	-	1,500	2,500
Printing & Stationery	3,000	-	1,650	1,350	-	-	1,350	-	-	-	-	-	1,350
Communication & Computing	12,300	-	12,200	100	-	-	100	-	-	-	-	-	100
Subsistence & Conferences	1,500	-	500	1,000	-	-	1,000	-	-	-	-	-	1,000
Subscriptions	52,000	-	2,000	50,000	-	-	50,000	-	-	-	-	-	50,000
Professional Fees	66,000	-	10,000	56,000	-	-	56,000	-	-	-	-	-	56,000
Miscellaneous Expenses	2,000	-	1,000	1,000	-	-	1,000	-	-	-	-	-	1,000
	1,174,700	-	722,300	452,400	59,600	-	512,000	10,900	4,900	188,500	-	195,600	461,100
INVESTMENT MANAGEMENT FEES													
Internal Information Systems	399,000	-	399,000	-	103,000	-	296,000	6,100	-	-	-	180,000	225,100
Internal Management Fees	259,000	-	258,000	1,000	1,000	-	2,000	-	-	-	-	-	1,000
External Management Fees	3,958,000	-	3,855,000	103,000	3,000	-	106,000	2,700	-	-	-	8,000	97,700
				-									
TOTAL INVESTMENT MANAGEMENT EXPENSES	4,616,000	-	4,113,000	503,000	99,000	-	404,000	8,800	-	-	-	188,000	323,800
Total Investment	5,790,700	-	4,835,300	955,400	39,400	-	916,000	19,700	4,900	188,500	-	383,600	784,900

SOUTH YORKSHIRE PENSIONS AUTHORITY

BUDGET REPORT	2018/19					2019/20					
	Original Estimate 18/19	Adjust	Restated Base 18/19	Variance	Virements	Revised Est Base 18/19	Inflation 2% pay 2.5% prices	Volume & others	Growth	Savings	Original Estimate 19/20
Admin inc District Offices											
Staffing	2,171,500	40,300	2,211,800	- 63,700	- 24,000	2,124,100	96,400	46,300	-	-	2,354,500
Training Exps	14,000	1,300	15,300	-	-	15,300	-	-	5,000	-	20,300
Other Indirect EE's Expenses	24,500	1,900	26,400	8,000	-	34,400	600	-	-	-	27,000
Rent & Service Charge	162,000	28,400	190,400	-	-	190,400	4,700	-	-	-	195,100
Transport Expenses	10,000	1,500	11,500	5,000	-	16,500	400	-	5,000	-	16,900
Equipment, Furniture & Materials	15,900	1,600	17,500	-	-	17,500	-	-	-	-	17,500
Publications	500	-	500	-	-	500	-	-	-	-	500
Printing & Stationery	76,000	1,200	77,200	- 20,000	- 20,000	37,200	-	-	-	- 20,000	57,200
Communications & Computing	236,000	- 131,000	105,000	83,000	83,000	271,000	-	-	-	-	105,000
Subsistence & Conferences	2,200	300	2,500	-	-	2,500	-	-	-	-	2,500
Subscriptions	10,000	-	10,000	-	-	10,000	300	-	-	-	10,300
Professional Fees	157,000	-	157,000	-	-	157,000	-	25,000	15,000	-	197,000
Miscellaneous Expenses	9,000	-	9,000	-	-	9,000	-	-	-	-	9,000
Central Expenses	416,000	- 416,000	-	-	-	-	-	-	-	-	-
Local Pension Board	15,000	- 15,000	-	-	-	-	-	-	-	-	-
Gross Expenditure	3,319,600	- 485,500	2,834,100	12,300	39,000	2,885,400	102,400	71,300	25,000	- 20,000	3,012,800
Miscellaneous Income											
Payroll Admin	33,000	-	33,000	-	-	33,000	-	-	-	-	33,000
Other Miscellaneous Income	1,000	-	1,000	-	-	1,000	-	-	-	-	1,000
District Council Recharge	8,000	- 8,000	-	-	-	-	-	-	-	-	-
IT Network Charges	65,000	- 65,000	-	-	-	-	-	-	-	-	-
IAS19 charges	20,000	-	20,000	-	-	20,000	-	-	-	-	20,000
Fees & Charges	2,000	- 1,000	1,000	39,000	39,000	79,000	-	-	-	-	1,000
Total Income	129,000	- 74,000	55,000	39,000	39,000	133,000	-	-	-	-	55,000
Total Net Expenditure Admin inc District Offices	3,190,600	- 411,500	2,779,100	- 26,700	-	2,752,400	102,400	71,300	25,000	- 20,000	2,957,800

SOUTH YORKSHIRE PENSIONS AUTHORITY

BUDGET REPORT	2018/19					2019/20					
	Original Estimate 18/19	Adjust	Restated Base 18/19	Variance	Virements	Revised Est Base 18/19	Inflation 2% pay 2.5% prices	Volume & others	Growth	Savings	Original Estimate 19/20
FINANCE											
Staffing	-	420,100	420,100	5,300	-	425,400	18,300	11,000	-	-	449,400
Training Exps	-	13,500	13,500	-	-	13,500	-	-	3,000	-	16,500
Other Indirect EE's Expenses	-	4,750	4,750	47,000	-	51,750	-	-	-	-	4,750
Rent & Service Charge	-	32,000	32,000	-	-	32,000	800	-	-	-	32,800
Transport Expenses	-	6,250	6,250	500	-	6,750	-	-	-	-	6,250
Equipment, Furniture & Materials	-	4,050	4,050	-	-	4,050	-	-	-	-	4,050
Publications	-	1,000	1,000	-	-	1,000	-	-	-	-	1,000
Printing & Stationery	-	1,650	1,650	-	-	1,650	-	-	-	-	1,650
Communication & Computing	-	200	200	-	-	200	-	-	-	-	200
Subsistence & Conferences	-	500	500	-	-	500	-	-	-	-	500
Subscriptions	-	2,000	2,000	-	-	2,000	100	-	-	-	2,100
Professional Fees	-	10,000	10,000	-	-	10,000	300	-	-	-	10,300
Miscellaneous Expenses	-	1,000	1,000	-	-	1,000	-	-	-	-	1,000
Total Finance	-	497,000	497,000	52,800	-	549,800	19,500	11,000	3,000	-	530,500
IT											
Staffing	-	469,000	469,000	6,200	-	462,800	17,800	5,500	7,100	200	499,200
Training Exps	-	-	-	-	-	-	-	-	5,000	-	5,000
Other Indirect EE's Expenses	-	-	-	-	-	-	-	-	-	-	-
Rent & Service Charge	-	-	-	-	-	-	-	-	-	-	-
Transport Expenses	-	-	-	-	-	-	-	-	-	-	-
Equipment, Furniture & Materials	-	-	-	-	-	-	-	-	-	-	-
Subsistence & Conferences	-	-	-	-	-	-	-	-	-	-	-
Subscriptions	-	-	-	-	-	-	-	-	-	-	-
Professional Fees	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Expenses	-	-	-	-	-	-	-	-	-	-	-
Support Services	-	11,000	11,000	-	-	11,000	300	-	-	-	11,300
IT Costs	-	217,000	217,000	-	-	217,000	3,400	-	22,000	-	242,400
Total Gross IT Expenditure	-	697,000	697,000	6,200	-	690,800	21,500	5,500	34,100	200	757,900
Income	-	66,000	66,000	15,000	-	51,000	-	15,000	-	-	51,000
Total Net IT Expenditure	-	631,000	631,000	8,800	-	639,800	21,500	20,500	34,100	200	706,900

SOUTH YORKSHIRE PENSIONS AUTHORITY

BUDGET REPORT	2018/19					2019/20					
	Original Estimate 18/19	Adjust	Restated Base 18/19	Variance	Virements	Revised Est Base 18/19	Inflation 2% pay 2.5% prices	Volume & others	Growth	Savings	Original Estimate 19/20
Management & Corporate											
Staffing	-	47,250	47,250	-	-	47,250	1,600	-	-	-	48,850
Total Other Indirect EE's Exps	-	-	-	1,900	-	1,900	-	-	-	-	-
Professional Services	-	-	-	25,000	-	25,000	-	-	-	-	-
Support Services	-	326,000	326,000	-	-	326,000	7,800	-	-	-	333,800
Total Management & Corporate	-	373,250	373,250	26,900	-	400,150	9,400	-	-	-	382,650
Democratic Representation											
Staffing	-	47,250	47,250	-	-	47,250	1,600	-	-	-	48,850
Other Indirect EE's Exps	-	-	-	1,900	-	1,900	-	-	-	-	-
Democratic Rep Costs	-	19,000	19,000	-	-	19,000	-	-	-	-	19,000
Local Pension Board	-	15,000	15,000	5,000	-	10,000	-	-	-	-	15,000
Total Democratic Representation	-	81,250	81,250	3,100	-	78,150	1,600	-	-	-	82,850
TOTAL AUTHORITY BUDGET	8,981,300	- 3,664,300	5,317,000	19,300	-	5,336,300	174,100	107,700	250,600	- 403,800	5,445,600
		4,113,000	to fund								
		448,700	Districts								

PSP 51

This page is intentionally left blank

Appendix B

SOUTH YORKSHIRE PENSIONS AUTHORITY

APPENDIX B

FUND ACCOUNT

	Actual 2016/17 £	Actual 2017/18 £	Forecast 2018/19 £	Forecast 2019/20 £
Dealings with members, employers and others directly involved in the scheme				
Contributions and Benefits				
Contributions receivable				
From employers				
Normal	111,204,694.34	142,847,482.95	117,916,146.98	120,490,874.82
Deficit Funding	91,583,878.41	100,174,018.19	19,000,000.00	20,000,000.00
Augmentation	-	138,971.49	34,742.87	43,428.59
Capital contributions	671,767.31	275,212.89	362,886.77	407,202.55
From members				
Normal	54,192,526.83	55,192,293.85	54,375,935.87	54,496,650.91
	257,652,866.89	298,627,979.37	191,689,712.49	195,438,156.88
Employers' Early Retirement Payments	11,140,795.51	5,796,192.20	10,062,499.35	9,654,830.27
	11,140,795.51	5,796,192.20	10,062,499.35	9,654,830.27
Transfer Values Received	13,830,397.28	20,043,883.18	56,000,000.00	11,546,331.64
	13,830,397.28	20,043,883.18	56,000,000.00	11,546,331.64
	282,624,059.68	324,468,054.75	257,752,211.84	216,639,318.78
Benefits payable				
Retirement Pensions	205,360,924.19	213,384,036.59	217,651,717.32	222,004,751.67
Commutations and Lump Sums	51,881,039.43	50,049,725.01	51,367,506.84	51,253,041.21
Death Grants	4,724,422.47	6,888,097.60	5,762,303.23	5,639,714.04
	261,966,386.09	270,321,859.20	274,781,527.39	278,897,506.92
Payments to and on account of leavers				
Transfer Values Paid	11,649,344.52	28,374,646.31	12,969,216.30	16,211,520.37
Refunds of Contributions	502,647.46	554,365.01	404,595.34	455,956.75
State scheme premiums	221,748.76	49,618.58	105,802.60	137,434.38
	12,373,740.74	28,978,629.90	13,479,614.23	16,804,911.51
	274,340,126.83	299,300,489.10	288,261,141.62	295,702,418.42
Net additions/(withdrawals) from dealings with members	8,283,932.85	25,167,565.65	(30,508,929.78)	(79,063,099.64)
Administration	2,885,703.63	3,094,894.06	2,978,681.00	2,951,854.14
Investment Management	20,622,308.14	24,140,282.39	26,659,000.00	28,774,900.00
Oversight and Governance	1,388,495.80	1,309,679.74	1,192,287.83	1,228,958.65
Management Expenses	24,896,507.57	28,544,856.19	30,829,968.82	32,955,712.79
Returns on investments				
Investment income	179,813,574.38	196,772,320.06	171,270,903.31	176,823,680.69
Change in market value of investments	1,234,857,152.30	190,228,003.79	229,832,526.18	289,264,100.66
Irrecoverable withholding tax	(2,634,910.91)	(3,117,071.06)	(2,489,694.72)	(2,628,589.64)
Net returns on investments	1,412,035,815.77	383,883,252.79	398,613,734.77	463,459,191.70
Net increase/(decrease) in the Fund during the year	£ 1,395,423,241.05	£ 380,505,962.25	£ 337,274,836.16	£ 351,440,379.28
Net assets of the Fund				
At 1 April	6,254,424,038.71	7,649,847,279.76	8,030,353,242.01	8,367,628,078.17
At 31 March	£ 7,649,847,279.76	8,030,353,242.01	8,367,628,078.17	8,719,068,457.46

This page is intentionally left blank

SOUTH YORKSHIRE PENSIONS AUTHORITY

22 November 2018

Report of the Fund Director

FRAMEWORK FOR VALUATION 2019

1) Purpose of the Report

To initiate a process of consultation on the framework within which the 2019 Valuation will be carried out.

2) Recommendations

Members are recommended to:

- a) Approve consultation with employers within the Fund and the Local Pension Board on the various issues for the 2019 Valuation identified in this report.**
-

3) Background Information

3.1 The triennial valuation of the Fund will take place based on the position at 31 March 2019. This report sets out the approach which it is proposed to take to the valuation process and identifies a number of proposals where consultation with stakeholders at an early stage would be beneficial.

3.2 The Fund embarks on Valuation 2019 looking at a significantly different context to previous valuations with very significant progress having been made towards eliminating the deficit. It is therefore important that in setting contribution rates beyond 2019 that this progress is not put at risk through over-optimistic assumptions, but equally the Fund must recognise the pressures within the financial environment in which employers are operating. This is the same delicate balance which has existed in previous valuations, although the context from a Fund point of view is, this time, perhaps somewhat more favourable. This report sets out the initial position which it is proposed to take in a number of areas.

Discount Rate

3.3 The broad methodology which Mercer, the Fund's actuary, will use to carry out the valuation is the same as in 2016 with the key assumption around the discount rate being based on an estimate of CPI inflation plus a percentage (previously an average of CPI+2.2%). Adopting this

key change at the last valuation has resulted in the valuation of the Fund's liabilities being much less volatile. The final level of discount rate above CPI will be set later in the process but for the moment modelling is being undertaken based on the previous assumptions. The Actuary may ultimately recommend a reduction in the percentage to recognise the fact that there is a general presumption that we are entering a lower return environment.

Pay Awards

- 3.4 Other key assumptions made are around the level of pay awards, and while this has no impact on the value of the 2014 scheme liabilities the bulk of past service liabilities still relate to the previous final salary schemes. Thus the assumption about pay increases remains important. In discussion with the actuary it is clear that there is differential experience between different parts of the employer base. For local authorities pay restraint remains a significant factor, although offset to some extent by incremental drift, while in other sectors there is somewhat more freedom over pay and reward strategies. Consequently it is proposed to examine the options of using different assumptions for some groups of employers. This is intended to reduce the risk of what happens in reality at employer level and the actuarial assumptions being out of line with each other which will build up a pressure for contribution increases in future valuations. Within this it is anticipated that the assumption for local authorities will reflect some element of near term pay restraint, based on pay awards of around 2% in the earlier years.

Demographics

- 3.5 The actuary has to make assumptions about how long people will live in retirement. The latest data on this indicates that the rate of improvement in life expectancy is slowing materially. It is proposed to reflect this in the assumptions and also to use the Authority's own data to inform the mortality assumptions. It is anticipated that this will tend to reduce future service contributions.
- 3.6 The proportion of the Fund's membership who are married also impacts the valuation of liabilities as this generates entitlement to a spouse's pension. While entitlement to such a pension is somewhat wider than this (including for example civil partners) this is a reasonable starting point for approximating the position and it is intended to use local data to support this assumption.

Commutation

- 3.7 The other key assumption is around the degree to which members choose to convert pension to lump sum, known technically as commutation. A larger percentage of conversion to lump sum tends to reduce liabilities overall. Previously Mercer have used a standardised national assumption for this. However, there is evidence that the actual position in South Yorkshire significantly differs from this and it is

therefore intended to use an assumption based on local experience in this area. Again this will tend to reduce employer contributions.

Ill Health Arrangements

- 3.8 Assumptions around ill health retirement and the ill health captive scheme for smaller employers will be updated for more recent information. It is also proposed to consult on ending the current process for some larger employers of making allowances for ill health retirements. This is a practice that the vast majority of funds have now abandoned.

Academies

- 3.9 Another area where it may be appropriate for the Authority to consult on changes is around the treatment of Academies. The work being undertaken by the Scheme Advisory Board (SAB) on Academies is pushing in the direction of a single contribution rate for academies. There are a range of technical reasons why this is wrong in principle, most particularly due to the way in which it creates cross subsidy between individual employers. However, this is the clear direction of policy and it may therefore be worth asking Academy employers whether they would be happy for SYPA to adopt an approach along the lines of the one being supported by the SAB at this valuation and thus “get in early”. The timing for such a change, given the likely funding position, might well be opportune.

Deficit Recovery

- 3.10 It may well be that some employers will remain in deficit after the valuation, although being much better funded than previously. It is likely that the employers in this position will be smaller employers with a lower level of covenant. The question arises as to whether the recovery period for such deficits should simply be brought down by three years from the previous level, or given the deficit is likely to be smaller brought down more significantly in order to fully eliminate the deficit more quickly. It is suggested that a variation on this latter approach is developed which results in no more cash (for future service and deficit contributions) being taken than was taken in the last valuation, with the recovery period being the mathematical outcome of this policy. It is not anticipated that this will impact a significant number of employers but having a policy set out in advance makes dealing with the issue easier when it does arise.

Exit Credits

- 3.11 Exit credits can occur where an employer is in surplus at the point of exiting the scheme. This is a particular issue in relation to the many small admissions which result from the outsourcing of cleaning and catering by individual schools and academies. Recent changes in the LGPS regulations mean that there are circumstances in which the amount of a surplus could have to be paid over to an employer on exiting the scheme. Where the employer has taken all the risk associated with participation in the scheme this is reasonable.

However, many employers delivering services under contract to a council or a school benefit from a situation where any deficit will transfer back to the council or school at the end of the contract. In these circumstances it is only reasonable that surpluses should also transfer back to the original employer. It is proposed to consult on this as an amendment to the current Funding Strategy Statement so as to provide the Authority with a clear policy position to deal with the cases that are beginning to flow through the system.

Employer Covenant and Related Issues

3.12 An increasing number of employers within LGPS are not tax raising bodies and this coupled with new insolvency regimes in the further and higher education sectors significantly raises the profile of issues of the ability of employers to meet their liabilities as a factor within the Funding Strategy Statement. We will need to develop work on an ongoing basis that:

- Assesses the risk that each employer's participation in the Fund poses, this will probably result in a broad traffic light categorisation of employers.
- Identifies whether the allocation of assets within the overall investment strategy should be differentiated according to the risk posed by employers (thus a more risky employer might have a greater proportion of bonds within the assets allocated to it).
- Identifies whether the change in the overall funding position provides an opportunity to manage an exit for some employers for whom LGPS is no longer an appropriate pension scheme or whether there is the opportunity for the Fund to secure charges against assets which would reduce the risk posed by an employer.

3.13 This is a considerable piece of work which will take some time to develop and is likely to run over a number of valuation cycles, however, it is important to begin the process of engaging with employers to promote dialogue and understanding of the issue as part of the 2019 valuation process. In addition some changes in regulations relating to employer exits are anticipated and undertaking this work now will allow the Authority to react to these promptly.

Arrangements for recovering costs from employers

3.14 Over the years the Fund has developed a number of arrangements where costs payable by employers (such as actuarial costs for academy set up) are recovered through deficit contributions. This is a novel arrangement and with the change in the overall funding position it is opportune to review these arrangements and consider whether they remain appropriate or should be changed for a more conventional arrangement.

3.15 The next steps in the process are as follows:

- Secure feedback from employers on the broad framework of assumptions and other changes set out in this report. This will be done through a formal consultation document made available to each employer and consideration of the same document by the Local Pension Board (To end Jan 2019)
- Consider and discuss feedback with the Actuary (Ongoing)
- Present final framework for approval by the Authority (March 2019)
- Reflect assumptions etc. in the Funding Strategy Statement which will be formally consulted on in the Sept to January period 2019 with the final version approved before the end of March 2020 when the new contribution rates come into effect.

3.16 This approach is intended to begin the building of a new relationship with the Fund's employers which is based on mutual understanding of and openness about the issues faced by each side allowing us to arrive at an eventual position which is, at least, properly understood by all involved.

4) Implications and risks

- Financial – There are no immediate financial implications arising from this report.
- Legal – The relevant regulations require that the Authority consult on the content of the Funding Strategy Statement. The process outlined in this report addresses that requirement at an earlier stage than in previous valuation cycles.
- Diversity – There are no apparent diversity implications.
- Risk – By being as transparent as possible with employers at as early a stage as possible it is intended that the risk of surprises from the valuation process which create risk around employer behaviour are minimised.

George Graham
Fund Director

Contact Officer:
George Graham

Phone: 01226 772887
E Mail: ggraham@sypa.org.uk

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

This page is intentionally left blank