

Delivering for our Customers

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Corporate Performance Report

Quarter 2 2019/20

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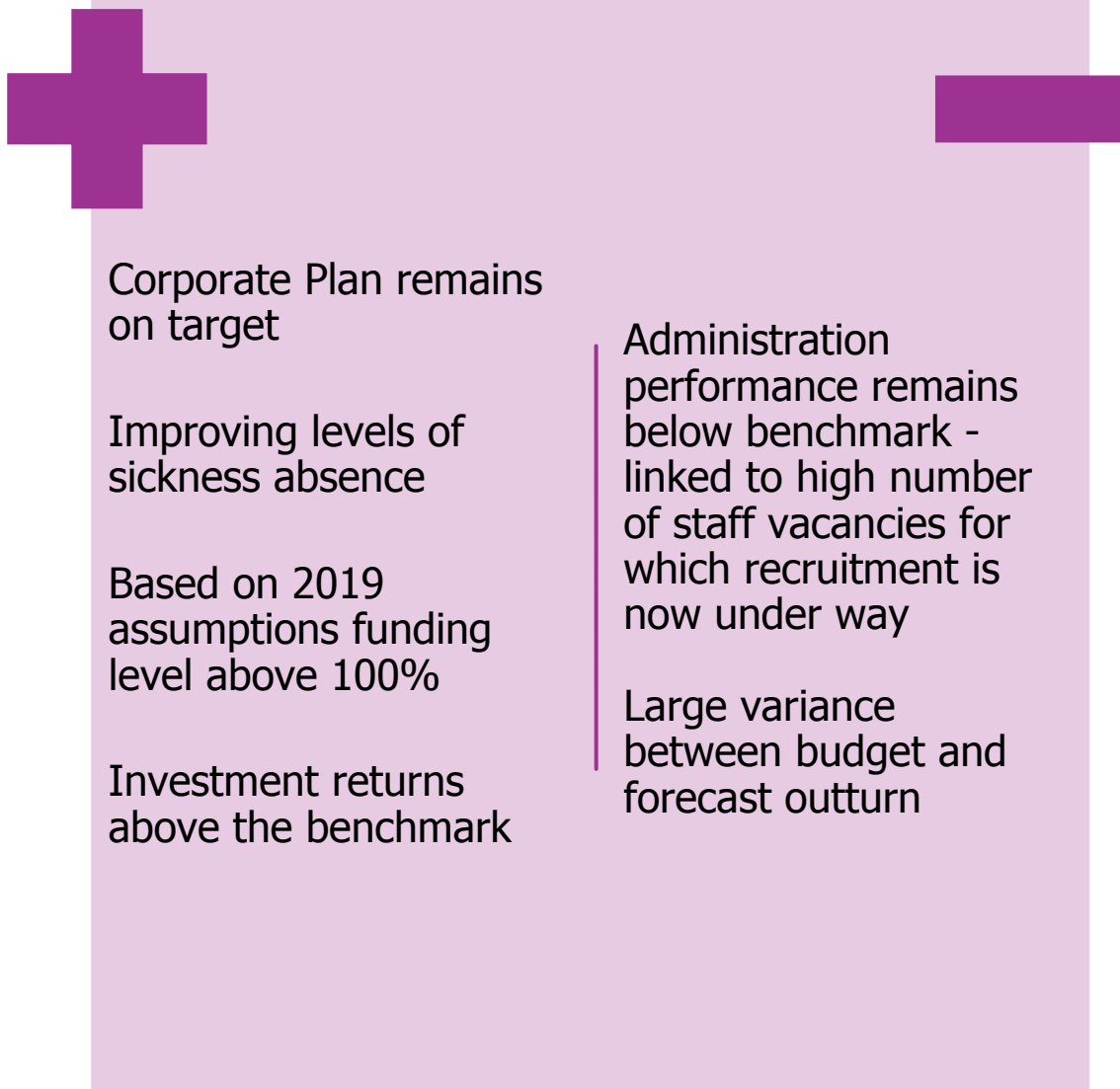
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1. Introduction

- 1.1 South Yorkshire Pensions Authority only exists to provide services to our customers whether they be scheme members or employers.
- 1.2 This Corporate Performance Report provides a summary view of overall performance in achieving the Authority's objectives; bringing together information on progress against the corporate strategy, a range of key performance measures, financial monitoring, and an ongoing assessment of the risks to the delivery of the Corporate Strategy. By providing this single view of how we are doing it will be easier for councillors and other stakeholders to hold us to account for our performance.
- 1.3 This report presents the information on overall performance during the first half of the 2019/20 financial year. More detailed information on the performance of the Authority's investments and the pension administration service during the quarter are contained in other reports which are available on the Authority's website.

2. Headlines

1.1. Key messages for the quarter are highlighted here. The detail and underlying context behind these are set out in the sections of the report that follow.



Corporate Plan remains on target

Improving levels of sickness absence

Based on 2019 assumptions funding level above 100%

Investment returns above the benchmark

Administration performance remains below benchmark - linked to high number of staff vacancies for which recruitment is now under way

Large variance between budget and forecast outturn

3. Delivering the Corporate Plan & Supporting Strategies

- 3.1 This section provides information on the progress we are making on delivering the various strategies which form part of our corporate planning framework.
- 3.2 All of the deliverables within the corporate plan are on target to be achieved. A full update on each item was provided in the first quarter report. The tables below provides updates in respect of the items for which developments have taken place during the second quarter.

Corporate Plan Deliverables	Activity this Quarter	On Target
Implementation of a Revised Investment Strategy	Hymans Robertson have been appointed to support the technical work required and timetable has been agreed for work up to March 2020. Detailed modelling work and exchange of data with the actuary is progressing. Significant events scheduled for Q3.	✓
An organisation adapted to the requirements of the post-pooling world	First annual review meeting between Investment Advisory Panel and Border to Coast undertaken in June. Legal advice sought in relation to the Commercial Property portfolio.	✓
Decision on the future of the Agricultural Property Portfolio	Initial research being undertaken to inform debate within the Investment Strategy Review No further progress during the second quarter. Some further discussions are scheduled within the Investment Strategy Review and a "deep dive" scheduled for the Investment Panel in March 2020.	✓
Increased take up of methods of communication that do not rely on either paper or face to face contact	For the first time, annual benefit statements for active and deferred members were published online only and not printed. Number of online registrations rose by 50% to 30k this quarter, with a promotional campaign ongoing to encourage further members to enrol online.	✓
A new way of engaging with employers and scheme members	New tool introduced via the employer online portal to permit secure exchange of data in relation to individual member queries, with an automated tool creating a workflow process on completion of the employer response.	✓
An organisation which exploits technology to the greatest extent possible to achieve its objectives	New bulk processing tool utilised to process all outstanding leavers for the purposes of the 2019 valuation data extract - minimising any data assumptions needed to be made by the actuary.	✓
A longer term plan for meeting the Authority's accommodation requirements	Potential procurement route for an external adviser identified and an outline brief produced. Procurement scheduled for Q4.	✓

Corporate Plan Deliverables	Activity this Quarter	On Target
Delivery of Valuation 2019 and the associated stable and affordable levels of employer contributions	Initial results discussed with major employers and a route forward identified. The major effort in terms of the results and communication will come in Q3.	✓
Ensure that the Fund operates with accurate data which gives a fair picture of its liabilities	Developments completed on DART tool which can now provide an instant measure of Common and Conditional Data standards across the whole membership as and when required.	✓

Information and Communications Technology Strategy	Activity this Quarter	On Target
Developing and maintaining our ICT infrastructure to meet the needs of an increasingly agile organisation	Agile working technology is being trialled by staff in the Finance and Investment Strategy teams. Desktop Hardware Replacement programme has been adjusted to gain best value from current desktop PC's. Replacement of hard drives with Solid State Drives underway.	✓
Using technology to support a step change in the way customers access our services	Significant enhancement to the Employer Web Portal (EmployerWeb) in October. Employer pension queries are now fully managed securely through the system.	✓
Using technology to deliver efficient business processes	In house developed DART application has been enhanced to include reporting and data cleansing for The Pensions Regulator.	✓
Keeping data safe and secure	Migration to new cloud based solution completed in October 2019. Provides greater visibility and protection of Authority devices both inside and outside of the corporate infrastructure.	✓

Human Resources Strategy	Activity this Quarter	On Target
Developing the Current Workforce to meet the Needs of the Organisation	Middle Manager Development programme now completed with positive feedback and a positive shift in terms of a number of aspects following pre and post course survey/evaluation. Action planning for the future now taking place.	✓
Recruiting a Workforce for the future	The majority of the ring-fenced recruitment (for the Pensions Administration re-structure) has now been completed and the new structure has started to be populated. External recruitment for a number of posts will be taking place during Quarter 3.	✓

Human Resources Strategy	Activity this Quarter	On Target
Retaining a high quality workforce	<p>A number of initiatives have already been implemented, driven by the Health, Safety and Wellbeing Committee, including:</p> <ul style="list-style-type: none"> - Commitment to the Mindful Employer Charter; - On-site workstation assessments from a qualified physiotherapist; for the workforce as a whole as well as being made available for individuals; - Dementia Awareness Training arranged for November and December for up to 32 front-line staff initially; and - Flu Vaccinations vouchers provided for staff with around half the workforce participating. 	✓



Equality and Diversity Scheme	Activity this Quarter	On Target
A diverse workforce that reflects the customers we serve	<p>Some work has started in relation to pulling all workforce information into one place.</p> <p>A data cleansing exercise of current staff data is to be undertaken and data in relation to applicants and new starters will be collected and stored in accordance with GDPR legislation.</p>	✓
Workforce culture, environment, policies and practices that are safe, accessible and inclusive for people from all protected characteristics	<p>Work is ongoing in this area: the suite of HR policies are being reviewed and updated. An internal audit review of HR Governance is in progress and the findings will help to inform planned changes and updates to the appraisal process, including how to embed objectives in relation to values and behaviours.</p>	✓

4. How are we performing?

- 4.1 This section sets out a range of performance measures which give an overall indication of how the organisation is doing in terms of delivering the services for which it is responsible.

Corporate Measures


- 4.2 These indicators give an idea of the overall health of the organisation. We will be developing further measures in this area for future reports.


Measure	Quarter 2 2019/20 Annualised	Quarter 1 2019/20 Annualised	Year to Date 2019/20 Annualised	Previous Year: 2018/19 Annualised	Year on Year Movement
Short Term Sickness Absence – Days Lost per FTE	0.79	0.57	1.36	1.99	
Long Term Sickness Absence – Days Lost per FTE	0.75	1.54	2.29	5.52	
Total Days Lost per FTE	1.54	2.11	3.65	7.51	

- 4.3 Sickness absence is reported as 'Days lost per FTE' rather than as a percentage and the measures are calculated as annualised figures to enable comparison from year to year.
- 4.4 At the end of the second quarter, the total days lost per FTE was 1.54, which is an improvement on the first quarter. The year to date annualised total is running at 3.65 days per employee, lower than the previous year but this is still higher than we would want it to be. It should be noted that of this total, 2.29 days relates to three cases of long-term sickness absence. One case remains ongoing from the previous quarter and two further cases commenced during this second quarter; all three are being actively managed in line with our long-term absence policy.

Investment Measures

- 4.5 The following table presents a high-level summary of the key indicators of investment performance. A more detailed quarterly report on investment performance, including commentary on market conditions and performance, is provided elsewhere on this agenda.





Measure	Performance Quarter 2 2019/20	Quarterly Benchmark	Performance Year to Date 2019/20	Year to Date Benchmark	Year to Date Actuarial Target	RAG Indicator
Investment Return – ex Equity Protection	3.00%	2.80%	6.90%	6.30%		

Investment Return – Whole Fund	2.80%	2.80%	6.20%	6.30%	2.10%	
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- 4.6 The actuarial target shown above is based on the 2016 Valuation data pending receipt of an updated, blended target from the actuary.
- 4.7 At the end of the second quarter, 50.1% of the Fund's assets were being managed in pooled structures provided by Border to Coast.
- 4.8 The estimated funding level at the end of quarter 2 is 103.1% - this calculation has been updated to use the 2019 valuation data. The comparable figure for quarter 1, using the same updated basis, was 101.5%.

Pension Administration Measures

- 4.9 The key performance indicators for Pension Administration are presented in the table below. A more detailed report on the performance of the Pension Administration service is provided for the Local Pension Board.

Pensions Administration Performance Indicators						
Measure	2019/20 Quarter 2	2019/20 Quarter 1	Year to Date 2019/20	Previous Year: 2018/19	Target 2019/20	Q1 to Q2 Movement
Proportion of priority cases processed on time	88%	90%	89%	91%	100%	
Proportion of non-priority cases processed on time	73%	77%	75%	83%	100%	
Proportion of all cases processed on time	74%	78%	76%	83%	100%	
Proportion of employer data submissions on time	85%	93%	89%	98%	100%	

- 4.10 Performance against the service standards has dipped slightly as the impact of vacant posts held pending the outcome of the restructure has started to have an impact. A total of 11 vacant posts following the restructure are now being advertised externally but the posts may take a few months to fill. Automation is being tested in some process workflows which will ease the caseload burden

when implemented. Some casual staff have also been engaged to support the team.

- 4.11 The reduction in the proportion of employer data submitted on time in Q2 was primarily caused by Rotherham MBC who provide a payroll service for 98 employers and experienced difficulties following the migration to a new payroll/HR system. These issues have been resolved for Q3.
- 4.12 At the end of the quarter membership of the Fund stood at 159,582 and there were 510 participating employers with active members. Two new employers were admitted during the quarter.

Financial Measures

Authority Operations

4.13 The main financial measure is performance against budget. The table below shows the forecast outturn position compared to the budget for the year. Details of the significant variances are shown beneath the table.

South Yorkshire Pensions Authority Operational Budget	2019/20 Budget £	2019/20 Q2 Forecast Outturn £	2019/20 Q2 Forecast Variance £	2019/20 Q2 Forecast Variance %
Investment Strategy	784,900	712,580	(72,320)	(9.20%)
Finance	530,500	478,510	(51,990)	(9.80%)
Pensions Administration	3,131,750	2,779,710	(352,040)	(11.20%)
ICT	532,950	488,940	(44,010)	(8.30%)
Management & Corporate Costs	382,650	374,040	(8,610)	(2.30%)
Democratic Representation	82,850	71,970	(10,880)	(13.10%)
Subtotal before transfers to reserves	5,445,600	4,905,750	(539,850)	(9.90%)
Appropriations to / (from) Reserves	0	29,500	29,500	100.00%
Total Charge to the Pension Fund	5,445,600	4,935,250	(510,350)	(9.40%)

4.14 We are currently forecasting a large underspend of (£540k) before transfers to reserves. The main variances are explained below.

4.15 The largest element of the total forecast underspend relates to Staffing Costs which is expected to be (£382k) under budget for the year. There are multiple reasons for this as summarised in the following table:

Staffing Costs Analysis of Forecast Underspend	(Underspend) / Overspend £
Error in calculation of estimated employer on-costs in the original budget	(£127,000)
Pensions Administration: Net impact of the savings from holding vacancies pending the restructure less the costs estimated for posts in the new structure now being recruited	(£164,000)
Pensions Administration: Additional costs relating to voluntary redundancies and early retirements	£48,000
Pensions Administration: Net impact of extra costs from acting up arrangements and employment of casual staff, and savings from staff turnover and individual changes to working hours	(£85,000)
ICT: Net impact of additional costs arising from changes to grades as a result of job evaluations and employment of casual staff partly offset by some savings from staff turnover	£11,000
Finance & Corporate Services: Savings from staff turnover; including one vacant post that was disestablished after the budget was set	(£16,000)
Savings on employer on-costs resulting from the above variances in each department	(£49,000)
Total Forecast Underspend on Staffing Costs	(£382,000)

- 4.16 The staffing costs estimate for the 2020/21 budget will be calculated using new working papers and based on the newly implemented structure in Pensions Administration.
- 4.17 The main variances within the other running costs of the organisation are as follows:
- 4.18 Investment Strategy:
- 4.19 There are forecast underspends totalling (£7k) on professional training and transport expenses, (£6k) on various office expenses, and savings of (£9k) on professional fees.
- 4.20 Expenditure on fees relating to internal and external management of investments is anticipated to be under budget by (£20k) and subscriptions by (£30k) reflecting the changes as the transition to pooling continues to progress, resulting in some of these fees now being charged directly to the Fund.
- 4.21 Pensions Administration:
- 4.22 Professional Fees and Consultancy -
- 4.23 £23k additional costs on job evaluation services required to support the work on the restructure.

- 4.24 £25k additional costs for our share, as a founding partner, of expenditure on establishment of new LGPS procurement framework for pensions administration systems. We would expect to recoup the majority of this cost over the life of the framework.
- 4.25 There will also be additional costs in the region of £35k arising from the ongoing work on the GMP reconciliation exercise and £15k for the implementation of an address tracing service in order to meet the expectation of the Pensions Regulator that we take actions to trace missing scheme members.
- 4.26 There is a planned over spend of £12k on the budget for benchmarking and corporate subscriptions due to the decision to take part in the CEM Benchmarking for pensions administration this year for the first time. The CEM benchmarking service provides a greater focus on the quality of service we provide rather than just cost and will also provide benchmarking against other pension funds both within and outside of the LGPS.
- 4.27 There is a forecast saving of (£37k) on rent and service charges; partly arising from savings achieved from the office move in December 2018 and partly as a result of relocating the district office staff to the head office in the first quarter of this financial year.
- 4.28 The budget for postage costs is expected to be underspent by (£23k) reflecting the recurrent savings being achieved from the move to the hybrid mail solution. There are also savings of around (£18k) on printing, stationery etc. These budgets will be revised accordingly for 2020/21.
- 4.29 Income is over budget by around (£30k).
- 4.30 Finance and Corporate Services:
- 4.31 There are forecast underspends totalling (£8k) on professional training and transport expenses, (£3k) on office expenses, and savings of (£10k) on professional fees. Some of these savings are being used to fund additional expenditure of £6k on subscriptions to CIPFA's Pensions Network and Digital Publications service – including a number of pre-paid places that can be used on future training events and providing access to a wealth of specialist advice and information.
- 4.32 ICT:
- 4.33 There are savings of (£8k) on infrastructure costs arising from the closure of the district offices.
- 4.34 Additional income of (£30k) above the budget is expected to be achieved, mainly due to the sale of the in-house developed software to another authority. This income will be transferred to the ICT reserve to be earmarked for use on future IT development.
- 4.35 Management & Corporate Costs:
- 4.36 There are forecast savings of (£31k) on the budget for support services provided under our SLA with Barnsley MBC arising from the fact that the budget had been set on an assumption of inflationary increases that were not applied and further savings have been realised following the review of the SLA for 2019/20 approved by the Authority in September.
- 4.37 These savings are being used to fund expenditure of £25k on a specialist review of the Authority's governance arrangements.

- 4.38 The budget for external audit fees is forecast to be underspent by (£15k) reflecting the new scale fees for audit set by Public Sector Audit Appointments Ltd with effect from 2018/19. The audit fee for 2019/20 is £32k. The budget for this will be revised accordingly for the next financial year.
- 4.39 Democratic Representation:
- 4.40 There is a forecast underspend of (£9k) on the Local Pension Board budget. (£3k) of this relates to savings on insurance costs and (£5k) relates to the training budget which has not been drawn upon so far this financial year.
- 4.41 Earmarked Reserves
- 4.42 The Authority currently has two earmarked reserves; the Corporate Strategy reserve is used to fund projects to deliver on corporate plan targets, and the ICT reserve is used for systems development and a rolling programme of hardware replacement.
- 4.43 Given the forecast underspend for this financial year, it will not be necessary to draw down on the Corporate Strategy reserve to fund any projects this year. The balance brought forward on this reserve is at an appropriate level to meet the needs of the Authority in the next financial year and is at the maximum level determined by the Authority's policy (at 7.5% of operational budget) so there are currently no plans to transfer any further funds into the reserve in this financial year.
- 4.44 The Authority generates income from software developed in-house that is sold to other organisations and this income is transferred into the ICT reserve each year. It is estimated that a total of around £33k from this will be transferred into the reserve this year. A project to implement enhanced payroll browser functionality on the pensioner payroll system is taking place this year and it is estimated that a total of (£4k) from the ICT reserve will be used to fund the costs of this in 2019/20.
- 4.45 The balances and anticipated movement in the reserves arising from the above are set out in the table below.

Reserve	Balance at 01/04/2019 £	Transfers In £	Transfers Out £	Forecast Balance at 31/03/2020 £
Corporate Strategy Reserve	382,831	0	0	382,831
ICT Reserve	84,133	33,500	(4,000)	113,633
Total	466,964	33,500	(4,000)	496,464

Proposal for Capital Reserve

- 4.46 The Senior Management Team have reviewed the overall position on the budget and reserves in light of this latest forecast and in order to inform the financial planning for 2020-21 and the medium term financial strategy. The plans in the Corporate Strategy and supporting documents will require capital resources for the following areas:

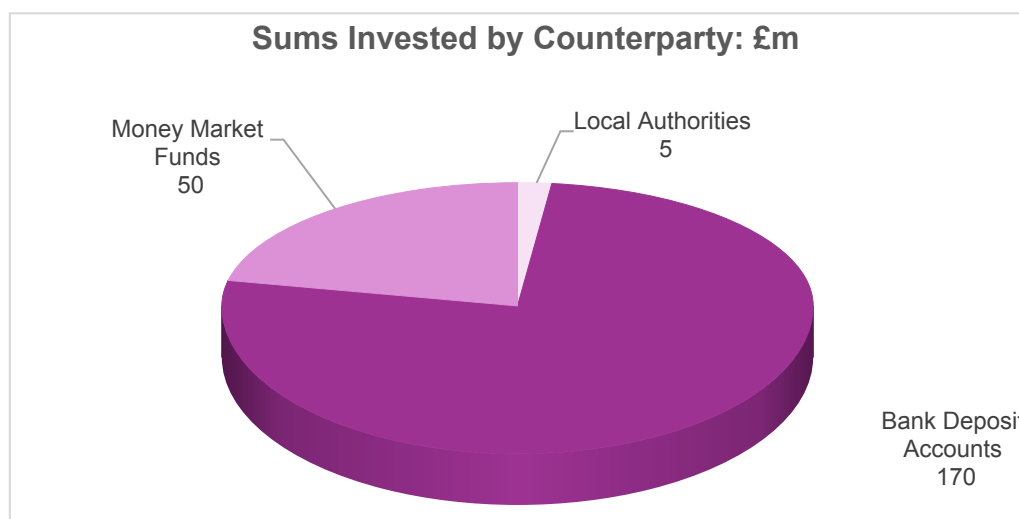
- a) New core business systems – There is a need to invest in the acquisition of new and integrated systems for Finance, HR and Staff Payroll. This will require funding for the software licence purchase, implementation costs, and procurement support.
- b) Re-procurement of Pensions Administration System – The Licence for this system will be due for renewal or replacement and a major procurement will therefore be required; funding will be needed for the procurement and evaluation support and, depending on the result of the process, acquisition and licensing costs together with implementation support.
- c) Initial scoping of the options for long-term office accommodation which will require external specialist support.
- 4.47 The capital costs of the above projects are expected to be in the region of several hundred thousand pounds and will need to be financed from reserves to the extent these are available, and from 'internal borrowing' from the Pension Fund for the remainder. This would have to be repaid to the Fund over an appropriate timescale.
- 4.48 The current forecast underspend for 2019/20 provides an opportunity to set aside the unused funds from this year's budget in order to carry these forward in an earmarked reserve that can be drawn upon to finance the major projects outlined above and thereby reduce the amount that would have to be financed from internal borrowing.
- 4.49 Therefore it is proposed to set up a new 'Capital Projects' reserve and to transfer the 2019/20 underspend (forecast at £510k) into this reserve. As this would be a reserve for use on specific capital projects, it would not be included in the total amount for which the Authority's policy limit of 7.5% of operational budget applies.
- 4.50 Additionally, it is proposed to transfer £150,000 from the existing Corporate Strategy reserve into the new Capital Projects reserve to be earmarked for these projects.
- 4.51 If this proposal is approved, the impact on the forecast for the year and the movement on reserves would be as follows:

South Yorkshire Pensions Authority Operational Budget	2019/20 Budget £	2019/20 Q2 Forecast Outturn £	2019/20 Q2 Forecast Variance £	2019/20 Q2 Forecast Variance %
Subtotal before transfers to reserves	5,445,600	4,905,750	(539,850)	(9.90%)
Appropriations to / (from) Reserves	0	539,500	539,500	100.00%
Total Charge to the Pension Fund	5,445,600	5,445,250	(350)	0.00%

Reserves	Balance at 01/04/2019 £	Contributions To Reserves £	Contributions from Reserves £	Transfers Between Reserves £	Forecast Balance at 31/03/2020 £
Corporate Strategy Reserve	382,831	0	0	(150,000)	232,831
ICT Reserve	84,133	33,500	(4,000)	0	113,633
Subtotal: Revenue Reserves	466,964	33,500	(4,000)	(150,000)	346,464
Capital Projects Reserve	0	510,000	0	150,000	660,000
Total Reserves	466,964	543,500	(4,000)	0	1,006,464

Treasury Management

4.52 The Fund's cash balances at the end of the quarter stood at £225m. The chart below shows how the balances have been invested with different counterparties in line with the approved treasury management strategy for the year.



- 4.53 The average rate of return on the cash balances was in the region of 0.75%.
- 4.54 During the third quarter, more loans are being made to local authorities for periods of between 6 and 12 months in order to achieve higher rates of return than are available from the bank deposits.
- 4.55 Detailed work to review cash management and enhance our cash flow forecasting will take place later this year with the aim of informing our treasury management strategy going forward.

5. What is getting in the way – Risk Management

- 5.1 We regularly review the things which might get in the way of us achieving our objectives – these are the risks that are set out in detail in the corporate risk register.
- 5.2 The risk register scoring matrix and the scores allocated to all the individual risks have been updated during the quarter in accordance with the new risk management framework as approved by the Audit Committee at their October 2019 meeting. The new scoring matrix is shown on the risk register attached as an appendix to this report.
- 5.3 There have been no new risks added during the quarter but one risk rating has been changed.
- 5.4 The existing control measures for several risks have been updated to reflect progress made in implementing actions that were being planned for risk mitigation. The review dates have also been updated accordingly.

Risk Rating Changes

- 5.5 Risk No. [I1] The risk of failure to ensure that the Authority has appropriate access to its cash resources: The current risk score has reduced to reflect that the probability of this risk has now reduced from 'Low' to 'Very Low' as a result of the existing control measures now in place; including new software provided by the actuary that assists with cash flow modelling.

Other Changes

- 5.6 Risk No. [O1] The risk of failure to ensure that the Authority protects the data it owns and handles has been updated with further detail in respect of the specific risk consequences and control measures relating to Cyber Risk.

Risk Register

- 5.7 The current risk register, reflecting the above changes, is attached at Appendix A.

6. Learning from things that happen

- 6.1 Inevitably when dealing with the number of customers that we do things can go wrong and we try to ensure that we learn from these things. Equally we should celebrate where things go particularly well or where customers feel members of our team have gone the extra mile to help them. This section provides information on the various sources of feedback we receive.

	Received in Q2 2019/20	Received in Q1 2019/20	Received YTD 2019/20	Received in Previous Year: 2018/19
Complaints	8	5	13	20
Appeals Stage 1	2	2	2	4
Appeals Stage 2	3	1	1	6

- 6.2 A detailed report of complaints and action taken has been provided to the Local Pensions Board for scrutiny.
- 6.3 Although there was an increase in the number of complaints in Q2 compared to Q1, only half of those received related to actions or inactions by SYPA. The detail of the complaints was reported to the Local Pension Board but there were none which identified any recurring themes to be addressed.
- 6.4 During the quarter, one stage 2 appeal was determined and upheld. The employer was advised to consider agreeing to ill-health retirement following submission of additional evidence from member.

Breaches of Law and Regulation

- 6.5 We are required to maintain a register of breaches, the detail of which is reported to the Local Pension Board at each meeting as part of their oversight role. In this quarter there have been 9 breaches included in the register, taking the total for the year to date to 14.
- 6.6 Five of the nine breaches were not by SYPA but are included for transparency. One process change has been agreed going forward in relation to the handling of bulk e-mails.

Compliments

- 6.7 A survey of retiring members was undertaken and the results showed that of the 69 respondents, 92% were satisfied with the service they received.