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SOUTH YORKSHIRE
PENSIONS AUTHORITY

Sarah Norman
Clerk

Gateway Plaza
Barnsley
South Yorkshire
S70 2RD

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 23 January 2020 at 9.30 am for the purpose of transacting the business set out in the agenda.

Sarah Norman
Clerk

This matter is being dealt with by: Gill Richards Tel: 01226 772806
Email: grichards@syjs.gov.uk

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Distribution

Councillors M Stowe (Chair), A Atkin, S Cox, A Law, J Mounsey, A Murphy, C Rosling-Josephs, A Sangar, A Teal, P Wray, N Wright and T Yasseen.

Contact Details

For further information please contact:

Gill Richards Joint Authorities Governance Unit Town Hall, Barnsley, South Yorkshire S70 2TA Tel: 01226 772806 grichards@syjs.gov.uk	Andrew Shirt Joint Authorities Governance Unit Town Hall, Barnsley, South Yorkshire S70 2TA Tel: 01226 772207 ashirt@syjs.gov.uk

SOUTH YORKSHIRE PENSIONS AUTHORITY

23 JANUARY 2020 AT 9.30 AM IN MEETING ROOM 14, TOWN HALL, BARNSLEY, 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	Section 41 Feedback from District Councils	
	Committee Administration	
7	Minutes of the Authority meeting held on 12 September 2019	1 - 10
8	South Yorkshire Local Pension Board Constitution	11 - 22
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10	Corporate Performance	27 - 48

Agenda Item 7

SOUTH YORKSHIRE PENSIONS AUTHORITY

12 SEPTEMBER 2019

PRESENT: Councillor M Stowe (Chair)
Councillor J Mounsey (Vice-Chair)
Councillors: A Atkin, S Cox, C Rosling-Josephs, A Sangar, A Teal, P Wray and N Wright

Trade Unions: G Warwick (GMB)

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), F Bourne (Corporate Administrator), N Copley (Treasurer), G Graham (Fund Director), S Norman (Clerk), A Shirt (Senior Democratic Services Officer), S Smith (Head of Investments), G Taberner (Head of Finance and Corporate Services) and C Tyler (Head of Governance)

R Elwell (Border to Coast Pensions Partnership Ltd)

Apologies for absence were received from Councillor A Law, Councillor A Murphy, Councillor T Yasseen, N Doolan-Hamer and D Patterson

1 APOLOGIES

Apologies were noted as above.

2 ANNOUNCEMENTS

The Chair informed Members that Councillor Diane Hurst had resigned from the Authority to allow her to undertake a new Cabinet portfolio role at Sheffield City Council.

It was agreed that a letter of thanks be sent to Councillor Hurst on behalf of the Authority.

The Chair welcomed Councillor Chris Rosling-Josephs, from Sheffield City Council to his first Authority meeting.

The Chair also welcomed Aoifinn Devitt, the Authority's newly appointed Investment Advisor and Sarah Norman, Clerk to the Authority, to their first Authority meeting.

Rachel Elwell, Chief Executive Officer, of Border to Coast was also welcomed to the meeting.

The Fund Director reminded the Authority that a Members' Seminar on the Actuarial Valuation process would take place on 19th September 2019, commencing at 10:00 am in Meeting Room 1, Town Hall, Barnsley.

The Annual Fund Meeting had been scheduled for 22nd October 2019, at Sheffield Hallam University. Further details would be circulated to Members in due course. It was noted that this would be a "tea time" event.

3 URGENT ITEMS

There were no urgent items.

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

RESOLVED – That Agenda Item 19 'Restructuring of Arrangements for Managing the Commercial Property Portfolio' be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

Councillor Mounsey reported that he had been appointed as Doncaster MBC's Section 41 representative with Councillor Wray as substitute Section 41 representative.

7 MINUTES OF THE ANNUAL AUTHORITY MEETING HELD ON 13 JUNE 2019

Councillor Mounsey requested that his apologies be recorded in the minutes.

RESOLVED – That the minutes of the Annual Authority meeting held on 13th June 2019 be agreed and signed by the Chair as a correct record, subject to the above amendment.

8 MINUTES OF THE ORDINARY MEETING HELD ON 13 JUNE 2019

Councillor Mounsey requested that his apologies be recorded in the minutes.

RESOLVED – That the minutes of the Ordinary Authority meeting held on 13th June 2019 be agreed and signed by the Chair as a correct record, subject to the above amendment.

9 QUARTER 1 CORPORATE PERFORMANCE REPORT

The Authority considered the Corporate Performance Report for Quarter 1 2019/20.

Members were informed that the report included a new section setting out details of the progress which the Authority had made during the quarter in relation to the various elements of the Corporate Planning Framework. Additionally, the report set out high level summaries of the performance measures for Investments, Pensions Administration and the forecast budget positon for the year.

Members noted the headlines in the report which were:

- Corporate Plan delivery was on target.

- There had been strong investment performance with a return of 3.8% before equity protection against the benchmark of 3.5%.
- Pensions Administration total performance was below target in the quarter. The reasons for this were set out in the report along with the actions that are being taken.
- The first survey of retired members undertaken during the quarter showed a satisfaction level of 92% with the retirement process.
- There had been no requirement to draw down on financial reserves this year.
- The Authority was forecasting a large underspend of around 5.5%. The reasons for the significant variances were set out in the report for Members' information.
- No new risks had been added to the Risk Register during the quarter.

RESOLVED – That the report be noted.

10 INVESTMENT PERFORMANCE

10A MARKET COMMENTARY BY INVESTMENT ADVISOR

Ms Devitt presented the Independent Adviser Market Commentary report to provide Members with additional context to the financial markets over the quarter and the outlook for the remainder of 2019.

Members thanked Ms Devitt for an informative report.

RESOLVED – That the report be noted.

10B SYPA QUARTERLY INVESTMENT REPORT

The Head of Investment Strategy presented the Quarterly Report to 30th June 2019.

For the quarter the Fund return was 3.8%, which outperformed the benchmark return of 3.5%. The Fund ex equity protection showed an outperformance of the benchmark giving a return of 3.8%. The outperformance was due to stock selection as asset allocation was neutral over the period.

The Fund Valuation at the end of March showed the Fund valued at £8.4bn; by the end of June this had increased to £8.7bn.

The most significant transactions this quarter was £39m raised from the index-linked gilt portfolio and £16m raised from the residual overseas portfolios to fund £64m net investment across the alternative portfolios.

Both bonds and equities gave a positive performance over the quarter.

During the quarter, underperformance had occurred in the emerging market portfolio. The residual emerging market fund was valued at just over £20m. It showed a significant loss due to one of the holdings the Authority has in an African fund currently being in liquidation. The value of the fund was now down to just under £5m.

In response to Members' questions around timescales for recovery, S Smith informed the Authority that it was likely to take a number of years to resolve this issue.

The funding level as at the end of June was around 104% (based on the 2016 valuation assumptions) which was an increase from the previous quarter value of 101.6%.

RESOLVED – That the report be noted.

11 INVESTMENT BELIEFS

A report was submitted to secure approval for a statement of investment beliefs in order to support the process of reviewing the Investment Strategy.

Members noted that defining investment beliefs had formed part of previous strategy reviews but they had not been brought together in a single statement, approved by Members, which summarised how the Authority undertakes investment.

The report set out a proposed initial statement of investment beliefs which had been adapted from the Authority previous work to reflect the reality of pooling.

Members noted that the highlighted words and phrases below indicated key parts of the beliefs:

"SYPA is an **active, global, long term** investor and looks to maintain a **diversified** portfolio of assets managed through the Border to Coast Pensions Partnership in a **responsible** way which gives due regard to **Environmental, Social and Governance** issues aiming to achieve superior **net of fees risk adjusted returns**. The overall approach to risk can be summarised as **moderate**".

S Smith provided Members with an overview of the beliefs in further detail.

It was noted that, subject to agreement by Members, the Statement of Beliefs would provide a framework within which officers supported by Hymans Robertson would develop proposals to implement the revised strategic asset allocation. It was noted that Members would have a further opportunity to debate the beliefs at the forthcoming Investment Strategy Seminar.

RESOLVED – That Members:

i) Approved the Statement of Investment Beliefs set out in the report.

ii) Noted that the process of reviewing the Investment Strategy would provide an opportunity to test and if necessary revise this statement.

12 BORDER TO COAST UPDATE AND PRESENTATION

The Chair provided Members with a verbal update on the results of the elections for the roles of Chair and Vice-Chair of the Border to Coast Joint Committee and for a shareholder nominated Non-Executive Director, following the Border to Coast Joint Committee held on 11th September 2019.

Members were informed that Councillor Doug McMurdo had been elected Chair of the Joint Committee and Councillor Tim Evans elected Vice-Chair of the Joint Committee.

Councillor John Holtby had been elected a Non-Executive Director to the Border to Coast Board.

The Chair reported that, sadly, Councillor Sue Ellis had formally resigned from her role as a Non-Executive Director on the BCPP Board. The BCPP Joint Committee had agreed that there was a strong desire to fill this vacancy for a one year period, as soon as possible and therefore, election would take place by postal ballot.

The Chair welcomed Rachel Elwell, Chief Executive Officer, of Border to Coast Ltd.

Ms Elwell delivered a presentation which included:

- Border to Coast – Progress Update
- Performance on the investment products launched by BCPP to date
- The delivery of planned investment products for 2020 onwards
- Progress on Investment Grade Credit Mandate
- Update on the Multi-Asset Credit (MAC) Mandate
- Update on Private Credit
- The objectives of the Climate Change Working Party
- Equities Performance Update

In relation to responsible investment, Councillor Teal commented that there was no evidence to show that engagement works.

Ms Elwell replied that it was incredibly important to measure the impact of engagement and this was one of the main reasons why BCPP had chosen to work with Robeco. There was also a lot of evidence to suggest that if you invested responsibly in well governed companies you get better investment outcomes.

Ms Devitt commented that Robeco had produced case studies providing examples of where they had engaged and the impact that it had made. She offered to obtain a case study for Members' information.

Councillor Sangar commented that the Authority had adopted a leadership position in terms of Responsible Investment. He requested that this position be maintained moving forward.

The Fund Director provided Members with reassurances that the Authority would continue to maintain its leadership role. He added that there were limitations to what the Authority could do, but it could set an example for other Funds.

The Chair thanked Ms Elwell for an informative presentation.

RESOLVED – That Members:-

i) Noted the update on the various streams of activity being undertaken in relation to Border to Coast.

ii) Agreed the Authority's continuing support for the appointment of Shareholder nominated Non-Executive Directors to the Board of the Company.

13 RESPONSIBLE INVESTMENT UPDATE

A report was presented to provide Members with an update on Responsible Investment Activity during the quarter ended June 2019.

Members were reminded that the Authority's approach to Responsible Investment was delivered through four streams of activity, largely in collaboration with the 11 other funds involved in the Border to Coast pool.

These were:

- Voting;
- Engagement through partnerships;
- Shareholder litigation; and
- Active Investing.

The headlines in relation to voting were summarised in the report for Members' information. During the period, the total number of votes cast and number of meetings voted was materially higher than in previous years due to Border to Coast now being able to vote shares in all markets.

Members noted that the Authority had become an affiliate member of Pensions for Purpose, a platform for the sharing of learning in relation to responsible and impact investing.

RESOLVED – That Members noted the activity undertaken in relation to Responsible Investment matters in the period April to June 2019.

14 LGPS GOOD GOVERNANCE REVIEW

A report was submitted on the conclusions of the Good Governance Review carried out on behalf of the Scheme Advisory Board. Members were asked to consider whether there were any specific actions required in light of the conclusions of the review.

Members were provided with an overview of the proposals set out in the review and their implications for SYPA.

The Fund Director highlighted that the report set out a number of areas where the proposed framework was unlikely to fit for SYPA. It was noted that these would be raised with the Scheme Advisory Board to ensure that the final guidance when produced accommodated not just the "standard" administering authority, but the various other arrangements that are in place across the scheme.

In addition, it was proposed that the Fund Director would take steps to put four areas in place (as set out in paragraph 5.8 in the report) to demonstrate best practice and also in preparation for the eventual introduction of the proposed framework.

In relation to the proposal to include a knowledge and skills requirement for Authority Members in the regulations, Members agreed that this should be raised with the District Councils in their consideration of appointments to the Authority.

RESOLVED – That Members:-

i) Noted the contents of the Good Governance Review.

ii) Approved the limited initial actions proposed pending the Scheme Advisory Board's final proposals; and

iii) Agreed that the implications highlighted in relation to knowledge and skills for Members of the Authority should be raised with the District Councils in their consideration of appointments to the Authority.

15 VALUATION 2019 - UPDATE

The Fund Director submitted a report to update Members on the process of delivering the Fund's 2019 valuation and to seek agreement to the key next steps in the process.

Members were reminded that the Authority was required to undertake an actuarial valuation of the Pension Fund every three years in order to establish employer contribution rates for the next three years. The valuation is undertaken by the Fund Actuary (Mercer) and contributes towards a Funding Strategy setting out how the liabilities of the Fund will be met over the long term.

The Head of Pensions Administration provided Members with an overview of the range of issues relating to the Valuation process which needed to be considered prior to the results becoming available.

Members noted that further detail on how the process would be undertaken and the implications of the major policy decisions would be provided to Members at the forthcoming Valuation Seminar on 19th September 2019.

RESOLVED – That Members:-

i) Endorsed the employer engagement process and timetable set out in the report.

ii) Approved the adoption of a primary objective in relation to this and future valuations of maintaining stability in contribution rates as defined in the body of the report, while noting the potential difficulties caused by the McCloud case and other external factors.

iii) Approved the proposed policy position that Multi-Academy Trusts are automatically treated as a single employer.

iv) Confirmed that for employers remaining in deficit the maximum allowable deficit recovery period should be 16 years and the default position on deficit recovery should be as set out in paragraph 5.8.

v) Approved the inclusion of the employers set out in paragraph 5.11 within the ill health captive arrangement.

vi) Endorsed the approach set out from paragraph 5.14 to employer risk management.

16 LOCAL CODE OF CORPORATE GOVERNANCE

A report was submitted to secure approval for a revised Local Code of Corporate Governance which had been updated to reflect changes in the Authority's governance structure and more recent guidance from CIPFA and SOLACE.

Members noted that the Authority's current local code had not been formally updated since 2014 and following the adoption of the new governance arrangements and the revised Corporate Strategy and the issuing of more recent guidance by CIPFA and SOLACE it was important this was brought up to date.

Appendix A to the report set out SYPA's revised Local Code of Corporate Governance for Members' approval.

RESOLVED – That Members approved the revised Local Code of Corporate Governance at Appendix A to the report.

17 GENDER PAY GAP

The Authority considered a report which provided details of the organisation's Gender Pay Gap.

It was proposed that future reports were published automatically with headline data and any key issues reflected in the regular performance monitoring reports presented to the Authority.

RESOLVED – That Members:-

i) Considered and commented on the 2019 Gender Pay Gap Report.

ii) Agreed that future reports should be published automatically and any key data reflected in the Corporate Performance Report.

18 SUPPORT SERVICES SERVICE LEVEL AGREEMENT 2019/20

A report of the Head of Finance and Corporate Services was submitted to set out details of a review undertaken of the Service Level Agreement (SLA) with Barnsley MBC for support services to be provided to the Authority and to seek approval of the draft revised SLA for 2019/20.

Members were asked to authorise the Fund Director and Treasurer to agree the final version incorporating additional service provision for Health and Safety.

RESOLVED – That Members:-

i) Approved the draft, revised Service Level Agreement with Barnsley MBC for 2019/20; and

ii) Authorised the Fund Director and Treasurer to agree the final version incorporating additional service provision for Health and Safety.

19 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.

20 RESTRUCTURING OF ARRANGEMENTS FOR MANAGING THE COMMERCIAL PROPERTY PORTFOLIO

A report was submitted to seek approval for the restructuring of the arrangements for managing the Authority's commercial property portfolio in order to bring the arrangements closer to industry norms and to create a situation which would be easier to transfer to the Pool when required.

RESOLVED – That Members approved the recommendations as set out in the confidential report.

CHAIR

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Subject	**South Yorkshire Local Pension Board Constitution**	**Status**	For Publication
Report to	Authority Local Pensions Board	**Date**	23 January 2020 17 October 2019
Report of	Fund Director and Clerk		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Fund Director	**Phone**	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To seek approval for an updated constitution for the Local Pension Board.

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2 Recommendations

2.1 Members of the Local Pension Board are recommended to:

a. **Recommend the Constitution set out at Appendix A to the South Yorkshire Pensions Authority for approval.**

2,2 Members of the Authority are recommended to:

a. **Approve the revised Constitution of the South Yorkshire Local Pension Board set out at Appendix A.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

Maintaining clear and up to date constitutional documents is an important contribution to maintaining a strong governance framework.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report serve to reduce the risks identified around the effectiveness of the Local Pension Board.

5 Background and Options

5.1 Discussion have taken place over the last few meetings of the Local Pension Board to address issues arising from some instability in membership. Following on from this it is necessary to formally update the Constitution to reflect the changes agreed and also to ensure that the arrangements set out in the Constitution reflect current practice.

5.2 The revised Constitution set out at Appendix A now incorporates:

- The current agreed membership of the Board;
- The arrangements for the register of interests reflected in the conflicts of interest policy presented to the Local Pension Board for approval at its October 2019 meeting, including provision for publication;
- The Board's up to date terms of reference which were previously a separate document but which properly should be reflected in the Constitution.

5.3 The Pensions Authority has appointed an Independent Adviser to support the Board. While this is a significant and important role as an adviser it does not need to be reflected in the Constitution.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	None
Human Resources	None
ICT	None
Legal	Keeping the Constitution up to date and in line with the evolving legal framework is important while the changes in relation to the register of interests reflect best practice.
Procurement	None

George Graham
Fund Director

Sarah Norman
Clerk

Background Papers	
Document	**Place of Inspection**

CONSTITUTION OF THE SOUTH YORKSHIRE LOCAL PENSION BOARD

Date Approved:	2015
Date Revised:	October 2019
Date of Next Review	October 2020
Responsible Officer:	Monitoring Officer

CONTENTS

1. Name

1.1 The name of the Board is "the South Yorkshire Pensions Authority Local Pension Board" and is established by South Yorkshire Pensions Authority ("the Authority") as the administering authority for the South Yorkshire Pension Fund under the provisions of Section 5 of the Public Sector Pensions Act 2013 ("the Act") and the Local Government Pension Scheme (Amendment)(Governance) Regulations 2015.

2. Purpose and Role

2.1 The role of the Local Pension Board as defined by Sections 5(1) and (2) of the Public Service Pensions Act 2013 is to:

2.1.1 Secure the effective and efficient governance and administration of the LGPS for the South Yorkshire Pension Fund

2.1.2 Provide the Scheme Manager with such information as it requires to ensure that any member of the Local Pension Board or person to be appointed to the Local Pension Board does not have a conflict of interest.

2.1.3 Ensure the South Yorkshire Pension Fund effectively complies with the Code of Practice on the Governance and Administration of Public Service Pensions Schemes issued by the Pensions Regulator and is effectively managed and administered in compliance with the Code.

2.2 The Board will carry out its role in line with the specific terms of reference set out in Appendix A to this Constitution.

3. Powers of the Local Pension Board

3.1 Where any breach of legislation or duties is committed or is alleged to have been committed by the Pensions Authority or its Boards the Local Pension Board shall:

3.1.1 Within one month of the possible breach, meet with the Authority Chair (supported by the Head of Paid Service and Section 73 officer) to discuss the breach.

3.1.2 Ask the Authority Chair to explain the actions taken and provide evidence of the legitimacy of the actions taken.

3.1.3 Consider the matter on the facts available and evidence provided by the Chair and shall:

3.1.3.1 Refer it back to the Authority to consider afresh and correct any areas of concern/breaches of duty; or

3.1.3.2 Determine that no breach of duty has taken place.

3.2 If under clause 3.1 above it is decided that a breach has occurred, the Local Pension Board shall (as required by the Code of Practice and the Pensions Act 2004):

3.2.1 Report the breach to the Scheme Manager who should take prompt and effective action to investigate and correct the breach and its causes and, where appropriate, notify any affected members; or

3.2.2 Where prompt and effective action to remedy the breach has not been taken and/or where scheme members have not been informed when they should have been, report the breach as a breach of material significance to the Pensions Regulator.

3.3 As per Regulation 106(6) of the Local Government Pension Scheme (Governance) Regulations 2014 and subject to the terms in this Constitution, the Local Pension Board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

4. Scheme Manager Consents

4.1 The Local Pension Board shall not:

4.1.1 Consider or become involved in any internal dispute resolution appeals or the process itself.

4.1.2 Enter into contracts on behalf of the Administering Authority.

4.1.3 Use the Local Pension Board to act on behalf of a particular constituency or Pension Fund member in general or in relation to a specific complaint at any time.

4.1.4 Compromise the Pensions Authority's ability to comply with its fiduciary duty to the Pension Fund and its members.

4.2 The Local Pension Board must seek written consent from the Scheme Manager before it:

4.2.1 instructs the Pension Fund actuary to provide a report of any kind;

4.2.2 Requests any external advisor to attend a meeting of the Local Pension Board which shall require any remuneration of any level;

4.2.3 incurs a cost to the Pension Fund;

4.2.4 Can amend this constitution.

5. Membership

5.1 In accordance with Regulation 107 of the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 the South Yorkshire Local Pension Board will be made up of an equal number of employer and member representatives which is no less than four in total. The South Yorkshire LPB will comprise of 10 members in total.

5.1.1 Employer representatives will consist of:

- 2 Local Authority Councillors (rotated every 2 years) in line with a pattern agreed with the Constituent Authorities
- 1 'Other Large Employer' (appointed for 3 years)
- 1 Academy (appointed for 3 years)
- 1 Local Authority Senior Manager (appointed for 3 years)

5.1.2 Employee representatives will consist of:

- 3 Trades Unions who must be LGPS Scheme members (appointed for 3 years)
- 2 members selected from active, pensioner and deferred members (appointed for 3 years)

5.1.3 Appointment of employer and Trades Union representatives will be by nomination, Scheme member representatives will be appointed by an application process.

5.1.4 A member may serve a maximum of two terms of office.

5.2 No officer of South Yorkshire Pensions Authority or any elected Member appointed by a constituent Authority to serve on the South Yorkshire Pensions Authority may be a Member of a Local Pension Board.

5.3 Members of the Local Pension Board will be voting members; each member shall have one vote. It is expected that the Board will, as far as possible, reach a consensus; the Chair of the Board will have the final deciding vote which will be reported to the Administering Authority.

5.4 Regulation 107 requires that the administering authority, South Yorkshire Pensions Authority, ensures that all employer or member representatives sitting on the Board have relevant experience and capacity to represent the employers or members of the Fund.

5.5 Substitute members will not be permitted.

5.6 Each Local Pension Board member shall endeavour to attend all LPB meetings during the year.

6. Chair

6.1 The Board shall elect a Chair from amongst its members.

6.2 The Board shall elect a Vice-Chair from amongst its members.

6.3 When the Chair of the Board is from the employer representatives, then the Vice-Chair will be elected from the member representatives, and vice versa.

7. Leaving the Board

7.1 A member of the Board shall cease to hold office if:

7.1.1 He or she notifies the Board of a wish to resign.

7.1.2 He or she is an elected councillor and is appointed to the Pensions Authority.

7.1.3 He or she ceases to be employed by the body on behalf of whom he/she acts as a representative, including but not limited to Trade Unions or Scheme employers.

7.1.4 A member fails to attend meetings or otherwise comply with the requirements of being a Board member, for example fails to attend the necessary knowledge and understanding training.

7.1.5 A member dies or becomes incapable of acting.

7.1.6 There exists a conflict of interests in relation to a Board member which cannot be managed within the internal procedures of South Yorkshire Pensions Authority.

8. Standards and Interests

8.1 All members of the Board will adhere to the Seven Principles of Public Life. These are:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

8.2 In addition, Local Authority Councillors serving on the Board are subject to their Council's Code of Conduct for Members. Members of the Board who are not Councillors but are members of a professional body or represent a Trade Union are subject to any Code of Conduct applicable to that body or Trade Union.

8.3 All members of the Board shall complete a declaration of their interest and deposit it with South Yorkshire Pensions Authority's Monitoring Officer as required by Regulation 108 (4) of the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.

8.4 The Monitoring Officer will make arrangements for the publication of the register of interests of members of the Local Pension Board on the website of the South Yorkshire Pensions Authority.

9. Conflicts of Interests

9.1 Further to the Regulations, a member shall not be appointed who has an existing conflict of interest.

9.2 For the avoidance of doubt, being a member of the Pension Scheme is not a conflict of interest.

9.3 Where a member becomes conflicted during their appointment, they shall inform the Scheme Manager without delay and their tenure shall end with immediate effect.

9.4 Where a member has been removed from the Board under this clause 9, they will be entitled to be reappointed once the conflict has been resolved.

9.5 Such reappointment shall be made to the Board only where written approval from the Scheme Manager (advised by the Monitoring Officer) has been provided.

10. Meetings and Procedures of the Board

10.1 The Board shall hold a minimum of four meetings in any municipal year. Additional meetings may be called at any time by the Chair.

10.2 In the absence of the Chair at a meeting of the Board, the Vice-Chair will preside over that meeting. In the event that both the Chair and Vice-Chair are absent then the Board will appoint one of its members to preside at that meeting.

10.3 The quorum for a meeting of the Board shall be at least 2 employer and 2 employee representatives.

10.4 Board meetings shall be held in public. The public may be excluded from the meeting when matters are considered that, in the opinion of the Scheme Manager, contain information covered by exempt/confidential information procedures under Schedule12A of the Local Government Act 1972 (as amended) or represent data covered by the Data Protection Act 1998.

10.5 All agendas and papers for Board meetings will be made publically available on South Yorkshire Pensions Authority's website unless, in the opinion of the Scheme Manager, they are covered by exempt/confidential information procedures under Schedule 12A of the Local Government Act 1972 (as amended) or represent data covered by the Data Protection Act 1998.

10.6 Minutes of proceedings at meetings of the Board shall be kept in accordance with statutory requirements. Following the approval of the minutes by the Chair of the Board, they shall be forwarded to all Pension Board members.

10.7 Minutes of meetings of the Board shall be published on South Yorkshire Pensions Authority's website.

11. Knowledge, Skills and Training

11.1 To be appointed as a member of the Board a person must have knowledge and understanding of and be fully familiar with:

11.1.1 The rules of the scheme;

11.1.2 Any document recording policy about the administration of the Scheme which is for the first time being adopted in relation to the Scheme;

11.1.3 The law relating to pensions; and

11.1.4 Any other matters which are prescribed in regulations.

11.2 Pension Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.

11.3 Pension Board members will comply with the Scheme Manager's training policies and attend all training provided by the Scheme Manager.

11.4 A written record of relevant training and development will be maintained for each member of the Board and details of training undertaken by each member of the Board will be published in the Board's Annual Report.

11.5 Training where needed, that is provided by the Scheme Manager, will be charged to the Pension Fund.

11.6 Subject to the Regulations or any advice or requirement issued by the Pensions Regulator, the Board must agree and implement a programme of training in respect of all members of the Board to ensure that they are adequately trained to perform their respective duties.

12. Accountability

12.1 The Local Pension Board will be collectively and individually accountable to the Scheme Manager and the Pensions Regulator.

13. Expenses and Funding

13.1 Members of the Board will be reimbursed for reasonable subsistence and travel expenses in accordance with relevant policies of the Administering Authority.

13.2 For the avoidance of any doubt, Pension Board members shall not receive an annual allowance of any kind.

13.3 The Board will be provided with adequate resources to undertake its role, these will include as a minimum:

- Accommodation and administrative support to conduct its meetings;
- Training; and
- Legal, technical and other professional advice.

13.4 The expenses of the Local Pension Board shall be regarded as part of the costs of the administration of the Fund.

14. Annual Report

14.1 At the end of each Municipal Year the Chair of the Board shall compile an annual report on the activities of the Board, including records of attendance and training, for submission to the Authority and for inclusion in the Authority's Annual Report and Accounts.

15. Variations

15.1 Any variation to this Constitution, considered necessary by the Board, shall be reported to the Scheme Manager for consideration and written consent.

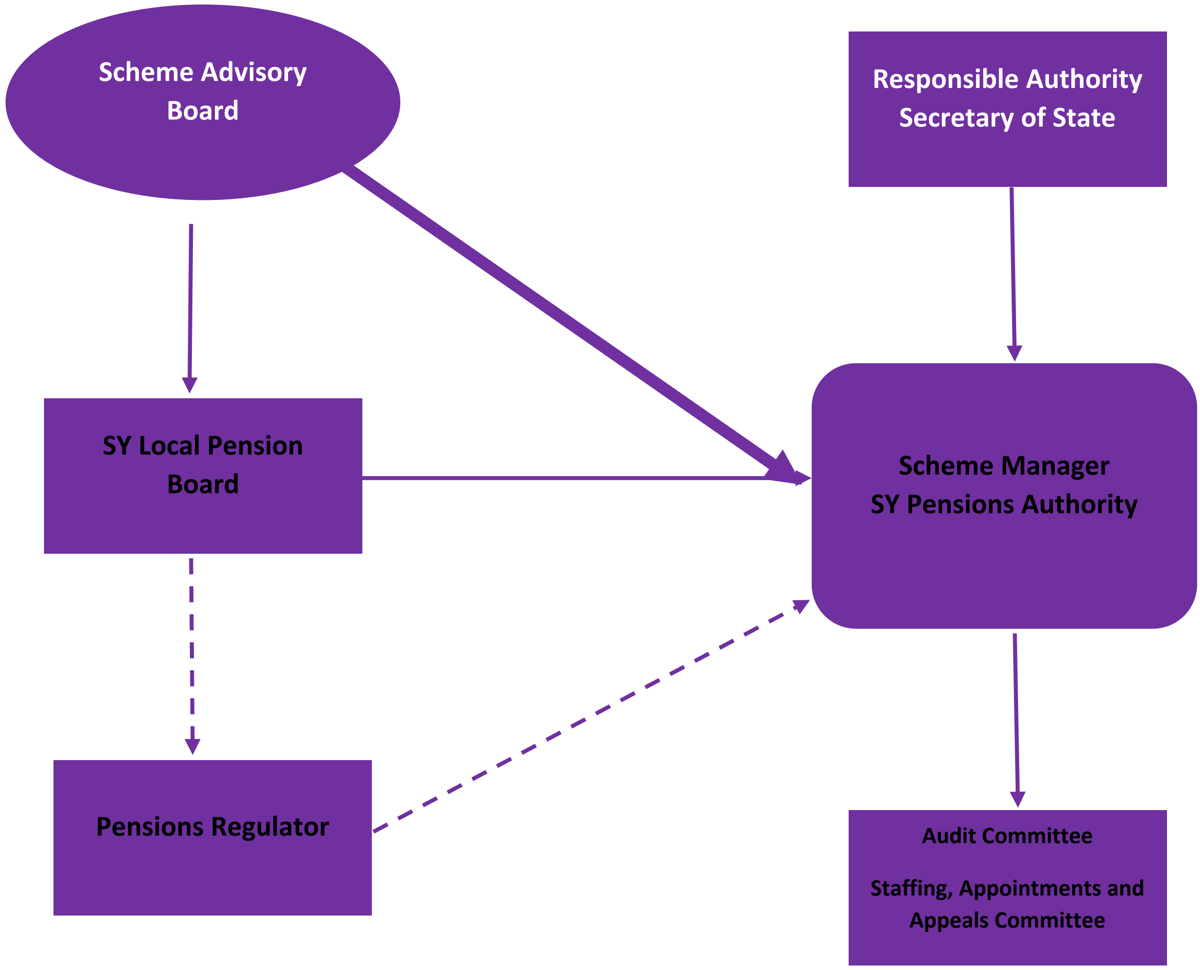
15.2 No variation made by the Board will be valid without the express consent of the Scheme Manager.

16. Data Protection

16.1 The Local Pensions Board will adhere to the Data Protection Policies of the Administering Authority.

17. Governance Structure

17.1 The diagram below shows how the South Yorkshire Local Pension Board fits into the overall governance structure flowing from the Public Sector Pensions Act 2013 and the Local Government Pension Scheme Regulations 2013 (as amended).



Appendix A

South Yorkshire Local Pension Board Terms of Reference

1. Compliance and Control

1.1 To review administrative governance and risk management processes and procedures in order to ensure they remain compliant with the Regulations and the Regulator's code of practice.

1.2 To assist with the development and review the implementation of the Authority's various policy documents and procedures.

1.3 To review the actions taken in response from internal and external review agencies (such as Internal and External Audit and the Pensions Ombudsman).

2. Administration

2.1 To monitor and review the performance of Scheme administration from the scheme members' and employers' perspective including making any recommendations for changes to the Pensions Administration Strategy.

2.2 To assess the quality of service provided by the pension administration service and identify any areas for improvement.

3. Communications

3.1 To monitor and make recommendations as appropriate on the means and content of communication with scheme members and employers

3.2 To produce an Annual Report upon the Board's activities to be submitted to the Pensions Authority.

4. Budgets

4.1 To agree an annual budget for the operation of the Local Pension Board and submit it to the Authority for approval.

5. Reporting

5.1 To make such recommendations to the Authority with regard to the matters set out in these terms of reference as it sees fit.

Subject	Programme of Future Meetings	Status	For Publication
Report to	Authority	Date	23rd January 2020
Report of	Clerk		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Gill Richards	Phone	01226 772806
E Mail	grichards@syjs.gov.uk		

1. Purpose of the Report

1.1 To consider the proposed schedule of Authority meetings during 2020/21.

2 Recommendation(s)

2.1 Members are recommended to:

Approve the schedule of meetings for 2020/21.

3. Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

A formal meeting schedule allows the Authority to discharge its functions in a timely manner and in accordance with the relevant laws and regulations.

4. Implications for the Corporate Risk Register

4.1 The actions outlined in this report do not directly impact on any specific risks on the corporate risk register

5. Background and Options

5.1 Attached as an appendix to this report is a schedule of meetings for 2020/21.

5.2 Member seminars have been included in the schedule for information.

5.3 Conferences and further training opportunities will be offered as they become available.

5.4 It should be noted that the meeting dates have, where possible, been checked against the meeting calendars of the four district councils.

6. Implications

6.1 The proposals outlined in this report have the following implications

Financial	None apparent
Human Resources	None apparent
ICT	None apparent
Legal	None apparent
Procurement	None apparent

Gill Richards Senior Democratic Service Officer

Sarah Norman Clerk

Background Papers	
Document	**Place of Inspection**

Appendix A

PENSIONS AUTHORITY MEETINGS 2020/21

Pensions Authority	**Audit Committee**	**Authority Seminars**	**Local Pension Board**
		2020	
11 June (Annual)			
		2 July	
			16 July
	23 July		
10 September			
		17 September	
			15 October
	22 October		
		29 October	
		12 November	
			3 December
10 December			
		2021	
21 January			
			11 February
	4 March		
18 March			

New Member Induction – 11 June 2019 before Annual meeting.

Meetings of the Staffing, Appointments & Appeals Committee will be held as and when required.

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SOUTH YORKSHIRE
PENSIONS AUTHORITY

Delivering for our Customers – Corporate Performance Report

Quarter 2 2019/20

Contents

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	A number of initiatives have already been implemented, driven by the Health, Safety and Wellbeing Committee, including: - 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	Some work has started in relation to pulling all workforce information into one place. 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.	✓
Workforce culture, environment, policies and practices that are safe, accessible and inclusive for people from all protected characteristics	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.	✓

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%	

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 <u>Finance and Corporate Services:</u>

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 <u>ICT:</u>

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 <u>Management & Corporate Costs:</u>

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.

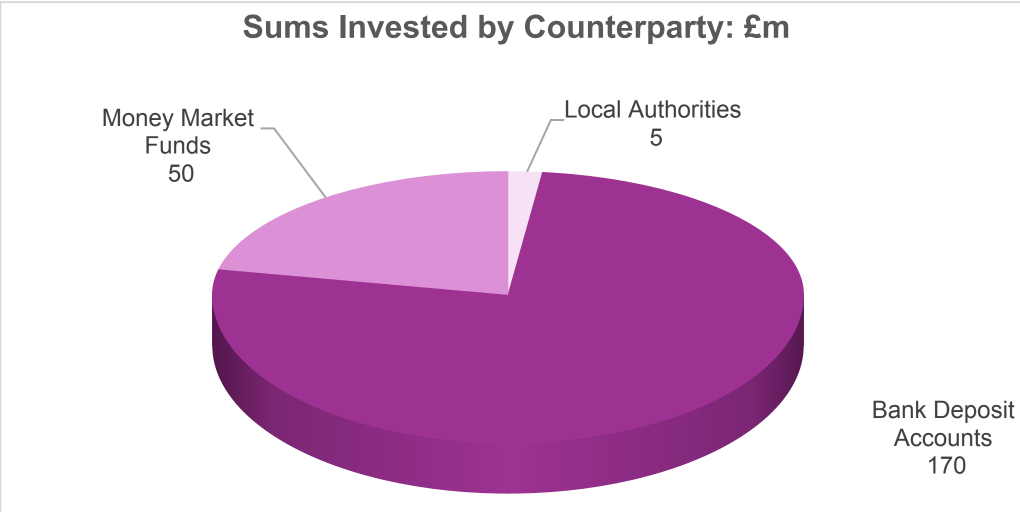
4.51 If this proposal is approved, the impact on the forecast for the year and the movement on reserves would be as follows:

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.

SOUTH YORKSHIRE PENSIONS AUTHORITY RISK REGISTER AS AT 4.12.19

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change	Review Date
G1	Governance	Failure to ensure that the elected Members knowledge and understanding of pensions related activities is robust and meets the statutory requirements in terms of Section 248a of the Pensions Act 2004.	Leading to ….. Improper scrutiny and challenge by elected Members; Mistakes, errors and omissions and non-compliance with statutory requirements; Failure to ensure contributions are collected; Failure to ensure benefits are calculated properly; Failure to ensure surplus monies are properly and prudently invested; Reputational damage in terms of censure from regulators.	Clerk to the Authority	Induction training provided to new Members which comprises a three day external training course; Programme of internal seminars; Periodic awareness presentations delivered to Members; A self-assessment framework for Members and Chairs is in operation but needs refining – this should assist in identifying training requirements; Lead member for training identified; Working to the spirit of CIPFA Code of Practice (Code of Practice on Public Sector Pensions Finance, Knowledge and Skills, revised in 2013 Production of Annual Report which includes commentary on Members training activities; External training augmented by internal training.	9	I = M P =M	2	I = L P = VL	Review of Member self-assessments. Addition of the Regulator's on line toolkit as a mandatory training requirement.	Clerk to the Authority Clerk to the Authority		31.03.2020
G2	Governance	Failure to ensure that the Local Pension Board is effective in carrying out its role.	Leading to ….. Ineffective scrutiny of the way in which the Scheme Manager (the Authority) exercises its responsibilities Action by the Regulator.	Clerk to the Authority and Fund Director	Induction training and commitment to an ongoing programme of learning and development for all members. Introduction of an independent element to ensure that the Board is not "officer led". Stabilisation of Board membership.	12	I=H P=M	10	I=H P=L	Additional learning development opportunities being provided.	Clerk to the Authority/ Fund Director		31.3.2020
I1	Investment and Funding	Failure to ensure that the Authority has appropriate access to its cash resources to meet its commitments to make payments. (Liquidity and credit risk.)	Leading to ….. Financial loss; Negative impact on overall financial viability of the Scheme; Inability to meet pensioner payroll costs and investment commitments. Reputational damage.	Fund Director	The Fund has immediate access to its cash holdings with the majority of cash being deposited for no longer than a week. Levels of cash holding are monitored daily. Treasury activity reviewed weekly by management and twice yearly by elected members with an annual review of limits. Treasury Management Strategy sets limits for the duration and risk profile of deposits with financial institutions. Triennial actuarial review considers contribution rates and cash flow requirements. New software available from the Actuary to assist with cashflows and funding level.	3	I = M P = VL	4	I = L P = L	Introduction of quarterly reporting of treasury activity to elected members. Consideration being given to splitting frictional cash (required for day to day purposes from cash awaiting investment).	Fund Director		31.03.2020
I2	Investment and Funding	Failure to maintain the gains in funding levels achieved since the 2016 valuation, either as a result of falls in the market value of investments or an increase in the value of liabilities.	Leading to ….. The need to maintain high (and possibly unaffordable) levels of deficit contributions. The need to increase future service contribution rates which may create financial difficulties for employers given the economic environment in which they operate. Critical review by the Government Actuary as part of their s 13 Valuation.	Fund Director/ Head of Investment Strategy	An equity protection strategy was implemented in March 2018. The Investment Strategy already looks to shift out of more volatile "growth" assets into less volatile income earning assets.	8	I = H P = L	4	I = H P = VL	First principles review of the Investment Strategy to be undertaken alongside the triennial valuation from April 2019 for implementation from April 2020. Options for containing or reducing liabilities (e.g. a trivial commutation review) will be examined following the actuarial valuation. However, in the meantime data cleansing activity will be focussed on areas that impact the value of liabilities.	Fund Director/ Head of Investment Strategy		31.3.2020
I3	Investment and Funding	Failure to implement effective arrangements for the oversight of investment management functions being undertaken by Border to Coast Pensions Partnership.	Leading to ….. Inability to adhere to Authority policies and potentially not be able to fulfil the Investment Strategy.	Head of Investment Strategy	BCPP is an FCA regulated body and as such is expected to adhere to the Stewardship Code and work within stipulated guidelines as set out in prospectus. These guidelines were set with discussion with underlying funds. Alignment of policies with underlying fund policies Ensured that BCPP have sub funds to allow SYPA to fulfil its strategy. Ongoing collaboration about policy. Ongoing collaboration regarding potential changes to Authority strategy. Analysis of investment performance on a monthly/quarterly basis with detailed analysis on an annual basis.	8	I = H P = L	6	I = M P = L	BCPP have agreed a process for the provision of controls assurance with all the audit firms involved in the LGPS.	Head of Investment Strategy		31.3.2020

Appendix A

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change	Review Date
I4	Investment and Funding	Failure to secure products through Border to Coast which address the requirements of the Fund's investment strategy.	Leading to ….. Failure to achieve required investment return. Erosion of the overall value of the Fund. Negative impact on contribution rates at valuation points.	Head of Investment Strategy	Ongoing dialogue with both Border to Coast and partner funds in order to influence product development. Monitoring of developments in the market place and where appropriate championing these within discussions with Border to Coast and partner funds.	8	I = H P = L	3	I = M P = VL	Engagement with Border to Coast as an "implementation partner" in the development of the investment strategy.	Head of Investment Strategy		31.12.2020
I5	Investment and Funding	Impact of Climate Change on the value of the Fund's investment assets and its liabilities.	Leading to …… An increased gap between the value of assets and liabilities. Reduction in the level of investment income as companies failing to adapt to a low carbon economy become less able to pay dividends Changes in the liability profile of the Fund.	Fund Director and Head of Investment Strategy	Climate Change Policy in place in addition to the Responsible Investment Policy, supported by engagement activity with investee companies to encourage a planned and more rapid transition to a low carbon economy. Ongoing monitoring of the carbon intensity of equity portfolios every other year in place. Lower carbon tilt adopted within the equity portfolios and continued by Border to Coast. Investment in the extended opportunity set provided by the move to a low carbon economy targeted within the Alternatives portfolio, particularly infrastructure. Ongoing monitoring of demographic data by the actuary in place.	15	I = VH P = M	9	I = M P = M	Product from the Border to Coast Climate working party including providing more regular measurement of the carbon intensity of portfolios. Consideration of alternative investment approached as part of the Investment Strategy Review. Scenario planning within the context of the ongoing development and review of investment strategies.	Head of Investment Strategy Head of Investment Strategy Fund Director		31.03.2020
O1	Operational	Failure to ensure the Authority protects the data it owns and the data it handles against inadvertent release and cyber-security threats.	Leading to ….. Loss of personal information resulting in reputational damage and censure by Information Commissioner; Loss of trust from partner organisations; Successful attacks by hackers or third parties; Disruption and delays.	Fund Director	Data backup undertaken daily and backed up information removed from site; Disaster Recovery Procedures and Business Continuity Plan in place; External audit by third party organisations the Authority works with; Reporting of Incidents to Information Commissioner; Information Governance training included in the training programme; Independent Data Protection Officer established ; Contract management arrangements regarding the software provided by SY Pensions to third parties includes performance management consideration; Physical security of offices improved following relocation to Gateway Plaza	8	I = H P = L	6	I = M P = L	Bi Annual review of Business Continuity Plan. Data breaches reported to Local Pension Board quarterly for scrutiny. Data Protection Officer Assurance programme introduced. Reduction of in-house 'manual' mailing of personal data. Move to secure online communications with members where possible (e.g. Annual Benefit Statements).	IT Manager Head of Pensions Administration Head of Pensions Administration Head of Pensions Administration		31.3.2020
			Cyber risk – the risk of loss, disruption or damage to the Authority or its staff/members due to its information technology systems and processes failing. Including risks to information, data security, as well as assets and both internal risks from staff and external risks from hacking and computer misuse.		Cloud based email management platform including targeted threat protection against email borne threats such as malicious URL's, malware, impersonation attacks and internally generated threats; ICT Security Policy and an effective system of governance in place; Mandatory GDPR/data protection and cyber security training for all staff; Comprehensive Patch Management Policy covering all desktop and server hardware/software; Annual ICT health checks and penetration testing via a CREST certification body; Cyber Essentials Plus Accreditation; Police vetting clearance for ICT staff; The principle of least privilege applied to all user accounts.					Cyber Security training identified for all staff; Develop an incident response plan to deal with incidents and enable the Authority to swiftly and safely resume operations; Establish an Incident Response Retainer; Migration to advanced cloud based Anti-Virus/End Point Protection solution; Database encryption of sensitive data.	IT Manager		
O2	Operational	Failure to meet statutory requirements for disclosure of information to scheme members.	Leading to ….. Poor customer service and reputational damage. Censure and potential fines from the Pensions Regulator and other statutory bodies; Potential for inaccurate data to flow into the 2019 actuarial valuation process and to impact the correct calculation of member benefits.	Head of Pensions Admin	Production of the ABS is dependent on receipt of timely returns from employers. The updated Administration Strategy from March 2018 incorporates SLA's and improves upon them in terms of fines being levied for employers who are non-compliant; Production process for 2018 was brought forward to ensure sufficient contingency time; Joiner/leaver processes configured to meet statutory disclosure requirements.	6	I = M P = L	2	I = L P = VL	Introduction of monthly data collection from April 2018 removes reliance on year-end returns so production process will begin in June rather than July from 2019; ABS's to be issued online from 2019 which further reduces the production schedule and process can be managed fully in house; Administration performance reporting to Authority to focus on statutory compliance from 2019-20; Data Quality Improvement Plan to be implemented.	Head of Pensions Administration		31.08.2020

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change	Review Date
03	Operational	Closure of Government Guaranteed Minimum Pension service and reconciliation exercise.	Leading to ..... Significant under/overpayments of existing pensions in payment causing member hardship and reputational damage; Workload pressures of adjustment to excess volumes of member records. Failure to maintain adequate records going forward.	Head of Pensions Admin	Reputable external provider appointed to meet initial HMRC deadline of 31 October 2018; External provider currently handling responses finally received from HMRC to all mismatch queries raised and the final report of the totality of GMP liability for the Fund is expected from HMRC by 31 December 2019. Once this is received from HMRC the external provider will be engaged to carry out a full final reconciliation across the database before we move to rectification. The final reconciliation is expected to be a two month project.	**12**	I = H P = M	**6**	I = M P = L	Liaison with LGPS funds to aim to ensure consistent approach to rectification once reconciliation finalised. Assurance work to be commissioned once HMRC issue final liability report	Head of Pensions Administration		31.07.2020
P1	People	Failure to maintain a suitably qualified and experienced workforce which reflects the community which the Authority serves.	Leading to ..... Continuing imbalances in the Authority's workforce which create the potential for a sudden loss of a significant amount of experience. Skills gaps through a lack of succession planning. Reputational damage through criticism of the lack of diversity in the workforce. Impact on productivity and organisational resilience.	Fund Director	A structured career grade scheme supported by highly structured and exam based training is in place for a key group within the pension administration workforce. Procedures within pension administration are well documented. Identification of potential single points of failure and production of plans to eliminate them. Production of an HR and Organisational Development Strategy targeting these issues.	**9**	I = M P = M	**6**	I = L P = M	Full implementation of the HR and Organisational Development Strategy. Formalise workforce and succession planning arrangements Implement Management. Development Programme covering all staff with supervisory and wider management responsibilities. Identification of potential single points of failure and production of plans to eliminate them.	Fund Director		31.03.2020

Key: P = Probability I = Impact VL (1) = Very Low; L (2) = Low; M (3) = Medium; H (4) = High; VH (5) = Very High

Risk Matrix

5 Very High	**5**	**10**	**15**	**20**	**25**
4 High	**4**	**8**	**12**	**16**	**20**
3 Medium	**3**	**6**	**9**	**12**	**15**
2 Low	**2**	**4**	**6**	**8**	**10**
1 Very Low	**1**	**2**	**3**	**4**	**5**
	1 Very Low	2 Low	3 Medium	4 High	5 Very High

PROBABILITY

Risk Score

Risk Score	RAG Rating
0 – 5	**Low**
6-14	**Moderate**
15-25	**High**

A '5X5' Risk matrix covering **Probability** and **Impact** (including 'Financial' and 'Other Impacts' is used when assessing the level of Risk.

This analysis should be undertaken by Managers and Supervisors **with experience in the area in question**.

The Risk 'Score' is identified by considering the probability of the event occurring, and the highest recorded impact of the risk, should it manifest.

A numeric value is applied to each of the selections for Probability and Impact, and these are referenced in the Risk Matrix to give a 'RAG' rated Risk 'Score'.

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Subject	Corporate Planning Framework	Status	For Publication
Report to	Authority	Date	23 January 2020
Report of	Fund Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Fund Director	Phone	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To introduce the suite of reports covering the annual update of the Authority's Corporate Planning Framework.

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2 Recommendations

2.1 Members are recommended to:

a. Note the contents of this report

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes.

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

Valuing and engaging our Employees

To ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

The Corporate Planning Framework is the mechanism through which the Authority ensures the delivery of its objectives and hence it impacts on all of the corporate objectives.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report have no specific implications for the Corporate Risk Register, although the Risk Register itself forms a key part of the Corporate Strategy.

5 Background and Options

5.1 The series of reports which follow this one on the agenda for this meeting of the Authority represent the first annual update of the Corporate Planning Framework following the major refresh carried out last year. This report presents a brief overview of the reports that follow and highlights the key issues that this update seeks to address.

Context

5.2 This update is being produced in the context of:

- The completion of the 2019 Valuation which reflects a significant improvement in funding levels with many employers in surplus.
- Continuing significant challenges to the administration of an already complex scheme from issues such as GMP reconciliation and the impact of the McCloud case.
- A continuing sharp increase in the number of employers within the Fund.
- The ongoing process of pooling the Authority's investments within structures provided by Border to Coast.
- An increasing focus on the good governance of LGPS funds flowing both from the Scheme Advisory Board and the Pensions Regulator.

5.3 Context within the organisation is also important. Over the last 12 months a significant restructure of the Pension Administration Service has taken place and we have begun to make progress across a range of areas in updating policies and working practices which have not been re-examined for some considerable time. This means that we will start next financial year with a significant number of relatively new staff. This makes it important that the Corporate Planning Framework is constructed in such a way that it is clear to every member of staff what their role is in delivering the overall plan.

Contents of the Corporate Planning Framework Update

5.4 This update of the Corporate Planning Framework is made up of the following elements:

- **The Corporate Strategy** – This has been updated to include a new framework of management behaviours which is intended to form part of a process of changing the overall culture of the organisation towards one that actively engages and empowers employees. In addition the planned actions within the strategy have been organised as four programmes of work each led by a member of the Senior Management Team. This is intended to make it easier for staff to understand how they fit in to delivering the whole. The way in which the action plan has been constructed involving managers from across the organisation is also in itself an important development in the way in which we operate.
- **The Medium Term Financial Strategy** – This sets out the financial framework for the coming three years covering both the Authority's Operating Budget and the Fund. The broad aim of the framework is to allow continued improvement in the quality of service and investment performance while remaining relatively low cost.
- **The Budget for 2020/21** – This presents proposals for an unchanged Operating Budget for 2020/21 with significant redirection of resources to address priorities. This is a significant result for the Authority which will see the impact of improvements in the quality of service as a result of the new investment with its costs (as a result of growth in the value of investments) representing a proportionately smaller call on the Fund.
- **The Levy for 2020/21 –** This should have come to the scheduled December meeting of the Authority and represents the call on the District Councils in relation to the remaining unfunded pension liabilities of the former South Yorkshire Metropolitan County Council. This is a gradually reducing sum.

5.5 This update to the Corporate Planning Framework represents a significant next step in the process of changing how the organisation is run, more staff have been involved in different elements of the process and the process has been more open than previously. This gives our team more ownership of both the process and the goals that it sets for both them and the organisation.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	None directly from this report
Human Resources	None directly from this report
ICT	None directly from this report
Legal	None directly from this report
Procurement	None directly from this report

George Graham

Fund Director

Background Papers	
Document	**Place of Inspection**

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Subject	Corporate Strategy Update	Status	For Publication
Report to	Authority	Date	23 January 2020
Report of	Fund Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Fund Director	Phone	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To secure approval of the updated Corporate Strategy Covering the next three years.

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2 Recommendations

2.1 Members are recommended to:

a. Approve the updated Corporate Strategy at Appendix A.

b. Authorise the Fund Director to revise dates for projects within the Strategy in consultation with the Chair in the light of changed information prior to 31 March 2020.

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3 Link to Corporate Objectives

3.1 This report sets out the activities to be undertaken to deliver all of the Corporate Objectives listed below over the next three years:

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes.

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

Valuing and engaging our Employees

To ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

4 Implications for the Corporate Risk Register

4.1 The draft Corporate Strategy set out in Appendix A contains an updated Corporate Risk Register reflecting both what might be described as "usual" risks which exist in any Pension Fund environment (such as that around cash flow) and specific risks associated with projects identified within the Corporate Strategy.

5 Background and Options

5.1 The Corporate Strategy is the centrepiece of the Authority's Corporate Planning Framework which is updated every year as some projects in support of the Corporate Objectives are completed and others are added in. A more comprehensive review takes place every third year aligned with the actuarial valuation. This report presents this year's first update following last year's fundamental review.

5.2 This update reflects a significant development in the way in which we undertake our corporate planning process. Over the last 12 months significant work has been undertaken to develop the skills of our managers and to create a more coherent management group beyond the Senior Management Team. Consequently the projects outlined in this update to the Corporate Strategy have been developed by this wider management group as a collective focussing on identifying projects around a theme of: "investing in technology to empower our people". These projects are of course in addition to the major activities that we have to undertake on a regular basis such as actuarial valuations and the continuing transition of assets into Border to Coast's pooling vehicles, and reacting to external developments such as the Good Governance review. The intention of this different approach has been to ensure ownership of the Corporate Strategy by as wide a group of managers as possible so as to create a stronger link to individual objectives and thus improve accountability for the delivery of the Authority's programme of continuous improvement.

5.3 The key elements of the update are as follows:

- A strengthening of the values and behaviours framework through the addition of additional behaviours and expectations of managers which have been developed collectively by the wider management group.
- The refinement of the action plan element of the strategy around a smaller number of "programmes" each led by a member of the Senior Management Team, although with individual projects being led by individual managers.
- The creation of more explicit links between the action plan and the budget.

5.4 In general this creates a focus within the Corporate Strategy on the delivery of smaller more focussed pieces of work which will achieve practical improvements to the experience of members of staff across the organisation. This is important in creating a stronger series of links between the activities of individual members of staff and the delivery of the corporate objectives, the so-called “golden thread” which should run through any corporate planning process.

5.5 The action plan element of the attached Corporate Strategy was only finalised at a workshop at the end of the first full week of January and further work is ongoing to ensure that the proposed timescales are realistic and it is therefore suggested that the Fund Director is authorised to make any changes to dates required as a result of this work in consultation with the Chair.

5.6 This refresh to the Corporate Strategy continues the emphasis of the last 2 years on building an effective organisation which is capable of meeting the challenges which will face it over the coming years without having to undertake significant changes of direction.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	The updated Corporate Strategy includes the delivery of a significant amount of development and improvement activity. These activities are in general focussed on making the organisation more efficient and effective, and thus should over time and following some initial investment result in either savings or increases in productivity. Any investment required can either be met within the resources included in the budget which appears elsewhere on the agenda, or from the Corporate Strategy reserve.
Human Resources	The Corporate Strategy includes a very significant investment in organisational and staff development activities which is supported by the budget. This investment will complement the ongoing fundamental review of HR policies and support the development of individuals so that they are able to deliver the organisation’s aspirations.
ICT	A number of the projects identified either require the purchase of additional software or the implementation of additional functionality within existing systems. The Authority has a level of internal ICT resource, however, it may be necessary to bring in additional resources on a short term basis to address potential workload peaks and ensure that support for business as usual can continue as well as allow development work to be delivered. Resources to support this are included within the budget and the relevant reserves identified to support specific projects.
Legal	There are no specific legal implications.
Procurement	A number of procurements will be required to deliver the Corporate Strategy and these will be carried out in line with Contract Standing Orders.

George Graham

Fund Director

Background Papers	
Document	**Place of Inspection**
Corporate Strategy 2019-22	https://www.sypensions.org.uk/Publications/Corporate-Policy

SOUTH YORKSHIRE
PENSIONS AUTHORITY

Corporate Strategy

2020/21 to 2022/23

Commitment to Excellence

Contents

Foreword

South Yorkshire Pensions Authority exists solely to meet the needs of its customers, whether they are scheme members or scheme employers. The purpose of this corporate strategy is to set out how we are going to approach that task over the next three years.

This update to our strategy reflects the continuing journey to build a stronger more resilient organisation focussed on delivering for our customers.

While change and review are and must remain a constant our core purpose remains the same as it has always been to act as stewards of the pension savings of our scheme members. But, in doing this we do not exist in a bubble. We are and must remain a part of the local government family in South Yorkshire and it is important that we do not lose sight of this connection. We are not immune as an organisation to financial constraints, they are just different to the constraints placed on a council or FE College, and it is right that we should face the same challenges around improving productivity and reducing costs that have faced our largest employers since the advent of austerity.

As a consequence of this our strategy over the next three years focuses on using the investment which we are able to make to deliver improvements to the way in which we do things in order to ultimately improve the service received by our customers and our overall efficiency.

This is an ambitious agenda, but one that will move us to the next level in meeting the needs of our customers which after all is what we are here for.

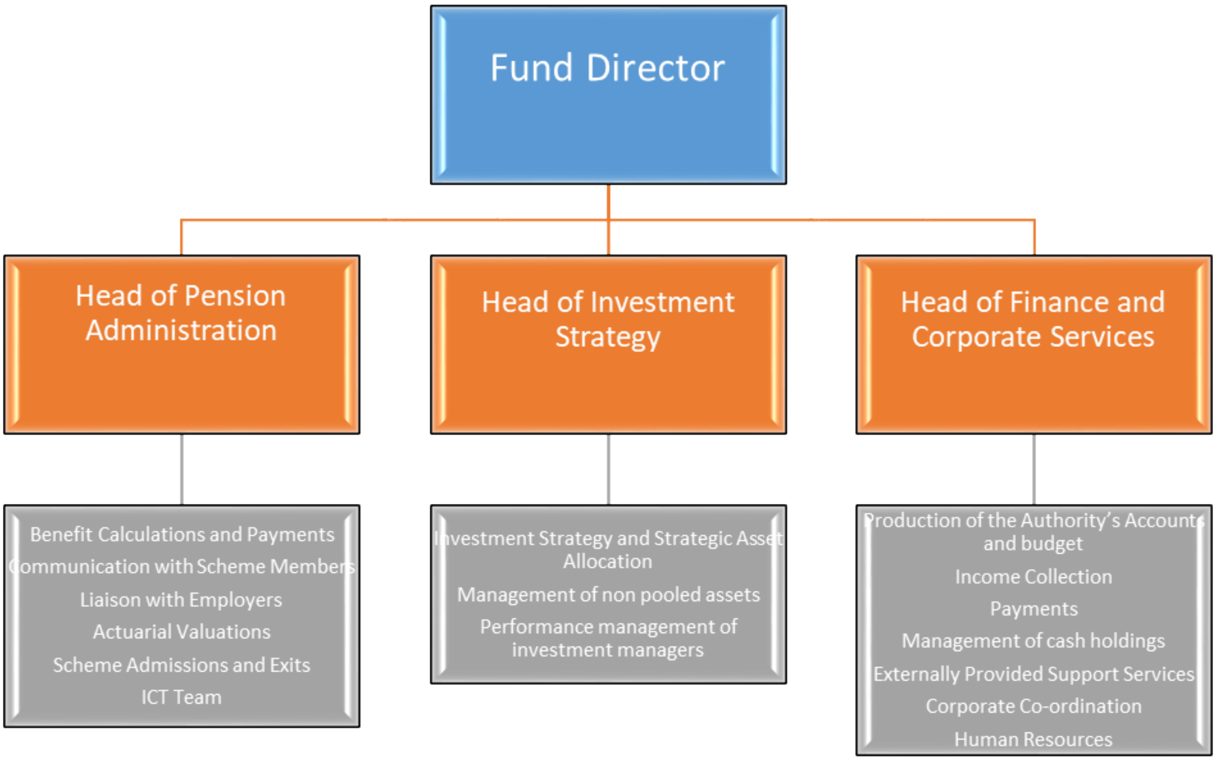
Cllr Mick Stowe
Chair
South Yorkshire Pensions Authority

Background

South Yorkshire Pensions Authority came into being on 1st April 1988, following the abolition of South Yorkshire County Council and the winding up of the South Yorkshire Residuary Body. It is unique amongst the administering authorities in the local government pension scheme in that it is the only democratically accountable free standing pension's organisation in the UK. While a small number of other administering authorities are not councils their "boards" include appointed experts rather than being entirely made up of councillors.

The Authority has 12 members drawn from the four South Yorkshire districts (Barnsley, Doncaster, Rotherham and the City of Sheffield) roughly in proportion to their population.

The Authority is organised fairly conventionally for a pension fund as set out in the diagram below:



In addition to the roles set out in the above diagram the Authority's statutory officers and democratic services are provided under service level agreements by Barnsley MBC. In total the Authority directly employs just over 100 people (92.4 FTE) based at the Authority's headquarters in Barnsley. The core dimensions of the Authority's operations are set out below:

Number of Scheme Members (at 31.3.19)	159,779
Number of Pensioners Paid (at 31.3.19)	52,582
Number of Scheme Employers (at 31.3.19)	493
Proportion of employers that are local authorities	1.6%
Value of Assets under Management (31.3.19)	£8.440 bn
Annual Value of Investment Income (2018/19)	£132 m
Annual Value of Contributions to the Fund (2018/19)	£206 m
Annual Value of Benefits Paid from the Fund (2018/19)	£293 m

South Yorkshire is a big pension fund by any dimensions (the seventh largest LGPS fund by assets and the eighth by membership) and historically this has meant that it has been able to realise significant economies of scale, being one of the lowest cost funds within the local government pension scheme.

The Fund has also delivered successful investment performance returning 8.8% pa on average over the first 30 years of the Pensions Authority's existence.

What we are here for and what we need to do to achieve it

Our mission, or what SYPA as an organisation is here for is

"To deliver a sustainable and cost effective pension scheme for members and employers in South Yorkshire delivering high levels of customer service and strong investment returns which facilitate stable contributions."

We only exist because of our customers and given that we only do one thing, run the pension scheme, we owe it to them to provide the best possible performance while maintaining costs within reasonable levels.

In order to achieve this mission there are a number of things we need to do or, our objectives, which are:

Customer Focus
to design our services around the needs of our customers (whether scheme members or employers).

Listening to our stakeholders
to ensure that stakeholders' views are heard within our decision making processes.

Investment Returns
to maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Responsible Investment
to develop our investment options within the context of a sustainable and responsible investment strategy.

Effective and Transparent Governance
to uphold effective governance showing prudence and propriety at all times.

Valuing and engaging our Employees
to ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

How are we going to go about fulfilling our objectives?

How we go about doing our job is also important. The way we go about doing our job reflects a series of values which are outwardly reflected as behaviours, as shown below:

Values	**Behaviours**
Honest and Accountable	Telling it like it is, and taking responsibility for our actions even when we have made a mistake
Progressive	Welcoming of change, while taking sensible risks and learning from our mistakes and from others
Professional	Being highly skilled and competent and managerially applying rationality to decision making processes
Empowering	Providing the freedom for individuals to identify and implement solutions to problems

These values and behaviours reflect how we wish others, whether customers or professional peers to see us and the degree to which each member of staff reflects these values in carrying out their role forms part of the appraisal process. These values also significantly influence the culture of the organisation, which in essence is how it feels to work for SYPA.

In addition to these values and behaviours which apply to all staff we have developed a range of management behaviours which support the values and which set out how we want to manage the organisation in order to deliver its objectives. These form part of the appraisal process for managers and are shown below:

Management Behaviours	***Demonstrated by:***
We model positive behaviours to each other and to all staff	• We regularly offer encouragement and praise for positive behaviours • We challenge inappropriate and unacceptable behaviour • We give and receive authentic feedback • We hold staff to account for their performance
We take responsibility for improvement - within a clear framework	• We get on with making improvements and changes rather than wait for permission (within a clear advice frame that sets out what we can get on with and what we can't). • We trust people to do their job, we don't micromanage. • We give a heads up when we plan something new, we speak up early when there is a problem or when things aren't going well. • When something doesn't go well we look for what we can learn and what we can do differently next time.
We all get behind a common goal	• We have a clear vision that sets out what our goals are and clear priorities which set out what our most important changes are. • We make the time to understand what we need to do to contribute to that vision. • We work together across the organisation and contribute to the organisation as a whole. • We challenge and question rumours and use discretion in sharing what gets discussed amongst managers.
We involve and engage people in decisions that will affect them	• We keep people in the loop about things that will affect them. • We seek and value the opinion of the people we manage and of other teams. • We take the time to set out plans then listen to the concerns and recommendations of those involved as to how we can strengthen those plans. • We communicate regularly and clearly to all staff.

What we are going to do over the next three years

Our planning process looks over three years because that is the period between valuations of the Pension Fund and the valuation is the event that initiates many of our major processes, such as the investment strategy.

Over the next three years we will be making a range of changes and improvements over the whole range of the Authority's activities. In order to manage these more easily and provide clear accountability we have divided these up into programmes of work each led by a member of the Senior Management Team. These cover:

- Services to Scheme Members and Employers – which is linked to the corporate objectives around Customer Focus and Listening to our Stakeholders
- Customer Service and Engagement - which is linked to the corporate objectives around Customer Focus and Listening to our Stakeholders
- Delivering the Investment Strategy – which is linked to the corporate objectives around Investment Returns and Responsible Investment
- Supporting the Corporate Organisation – which is linked to the corporate objectives around Effective and Transparent Governance and Valuing and engaging our Employees.

The pages that follow set out for each of these:

- The specific things we want to do;
- Which of the corporate objectives those outcomes relate to; and
- The timescale for delivering each task.
- Who the lead officer is for each task.

Over the next 12 months we will be strengthening our project management arrangements to ensure that this significant programme of activity is properly controlled and that the benefits delivered by each piece of work are properly captured.

Ref	Project / Action	Corporate Objective	Timescale		Responsible Manager
			Start	Finish	
Services to Scheme Members and Employers – Lead Head of Pensions Administration					
MS1	Implementation of process automation across pension administration on a prioritised basis. A business case for additional investment from already identified reserves will be made for the later phases in 2021-22.	Customer Focus	April 2020	March 2022	Head of Pension Administration
MS2	Roll out additional member self service facilities as they become available	Customer Focus	Jan 2020	March 2022	Head of Pension Administration
MS3	Clear residual backlog cases	Customer Focus	Feb 2020	Dec 2020	Benefits Team Manager
MS4	Conduct a “lessons learnt” review on the 2019 Valuation Process with a view to identifying improvements for the next cycle	Listening to our stakeholders	March 2020	June 2020	Head of Pension Administration
MS5	Provide additional support to staff to maximise their effectiveness	Valuing and engaging our employees			
	• Create a Technical Training Officer Post (through internal secondment) funded from part of the additional investment in learning and development in order to progress staff through the career grade more quickly and give greater access to training support.		March 2020	Ongoing	Head of Pension Administration
	• Create an easily accessible and updated single knowledge base for pension administrators based on the existing portal which has not been kept up to date		April 2020	March 2021	Head of Pension Administration
	• Implement a structured development programme for Pension Officers reaching to top of the career grade		Feb 2020	July 2020	Benefits Team Manager

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Customer Service and Engagement – Lead Head of Pensions Administration					
CS1	Implement a new approach to employer engagement, including (subject to a business case) acquisition and implementation of the UPM Employer Hub in order to create a single point of contact for employers	Customer Focus	April 2020	March 2022	Support and Engagement Team Manager
CS2	Implement UPM Contact Manager module in order to provide effective support for the operation of the Customer Centre	Customer Focus	Jan 2020	May 2020	Customer Services Team Manager
CS3	Actively promote take up of on line services utilising all available routes, including introducing measurement of effectiveness as well as pure volume.	Customer Focus	April 2020	Ongoing	Customer Services Team Manager.
Delivering the Investment Strategy – Lead Head of Investment Strategy					
IS1	Implement the revised Investment Strategy including the transition of assets to new Border to Coast products and recommendations in relation to the future of the agricultural portfolio	Investment Returns	March 2020	March 2023	Head of Investment Strategy
IS2	Implement the revised FRC UK Stewardship Code governing the Authority's approach to responsible investment	Responsible Investment	April 2020	March 2021	Head of Investment Strategy
IS3	Implement paperless processing of investment transactions	Investment Returns	Jan 2020	June 2020	Investment Accountant
IS4	Implement paperless processing of custodian's bank statements	Investment Returns	Jan 2020	June 2020	Investment Accountant
IS5	Make changes to the investment performance reporting process to make the process less labour intensive and to produce sharper more focussed reporting.	Investment Returns	Jan 2020	March 2022 and then ongoing	Head of Investment Strategy
IS6	Improve the monitoring and forecasting of cash flows combining data from the finance and investment functions	Investment Returns	Jan 2020	March 2021	Head of Investment Strategy
IS7	Replace the current investment accounting system with alternative arrangements appropriately scaled to the requirements of what will be an externally managed fund	Investment Returns	Jan 2020	March 2021	Investment Accountant

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Supporting the Corporate Organisation – Lead Head of Finance and Corporate Services

CO1	Replace the Authority's Business Systems covering Finance, HR, Staff Payroll and Time and Attendance Phase 1 – Scoping, specification and procurement Phase 2 – Implementation	Effective & Transparent Governance	Feb 2020 March 2021	March 2021 April 2022	Head of Finance and Corporate Services
CO2	Implement learning and development tools to improve the links between appraisal and training delivery maximising the benefit of the additional budget investment in learning and development:	Valuing and Engaging our Employees			
	Initial changes to the appraisal system to address Internal Audit recommendations		Jan 2020	March 2020	HR Business Partner
	Fully revised appraisal system ready to be incorporated into the new HR system		April 2020	March 2021	HR Business Partner
	Introduce revised induction process and e-Learning approaches to support annual and refresher training programmes		Feb 2020	March 2021	HR Business Partner
CO3	Implement the recommendations arising from the Hymans Robertson review of governance being conducted in light of the Good Governance review	Effective and Transparent Governance	April 2020	March 2022	Fund Director
CO4	Identify preferred option for the Authority's long term accommodation needs (implementation of any option will be a separate project in the next update to the Corporate Strategy)	Effective & Transparent Governance	Jan 2020	Dec 2020	Fund Director
CO5	Phase out acceptance of cheque payments and introduce on line and telephone payments	Effective & Transparent Governance	April 2020	April 2022	Financial Accountant
CO6	Replace website infrastructure and update Modern.gov in order to create a single web presence that better supports the orgainsation's communication and engagement strategies	Effective & Transparent Governance	Jan 2020	March 2021	Corporate ICT and Digital Manager
CO7	Roll out Office 365 to ensure the Authority has access to a regularly updated suite of core application software across	Effective and Transparent	Jan 2020	December 2021	Corporate ICT and Digital

	the whole estate	Governance			Manager
CO8	Introduce Agile Working approach across the whole organisation supported by a funded programme of hardware replacement	Effective and Transparent Governance	Jan 2020	March 2023	Assistant ICT Manager
CO9	Replace the Authority's telephony infrastructure Phase 1 – Scoping Phase 2 – Procurement and Implementation	Effective and Transparent Governance	 Sept 2020 April 2021	 March 2021 March 2022	Corporate ICT and Digital Manager

How we will know if what we have done has had an impact

All of the tasks we have identified to undertake over the next three years are intended to make SYPA a better organisation and make us better at delivering our mission, but we need to know that doing these things has had an impact on how good we are at what we do.

Changes in the following indicators will be used to help us understand whether the changes we have made have had an impact. Each indicator has been linked to one of the corporate objectives.

Customer Focus
to design our services around the needs of our customers (whether scheme members or employers).

- Deliver an upward trend in customer satisfaction with the administration service.
- Meeting targets for the processing of transactions within specified timescales.
- Retention of Customer Service Excellence accreditation
- Numbers of complaints and compliments
- Numbers of appeals against Authority decisions and the proportion upheld.

Listening to our stakeholders
to ensure that stakeholders' views are heard within our decision making processes.

- Achieve a rising trend in the actuarial funding level.
- Achievement of stability in employer future service contribution rates.

Investment Returns
to maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

- Fund level investment returns v benchmark and actuarial assumption.
- Investment returns by asset class v the asset class specific benchmark
- An increasing trend in the level of investment income achieved relative to assets under management (Note this indicator will require adjustment to reflect changes resulting from the move to holding assets within pooled vehicles).

Responsible Investment
to develop our investment options within the context of a sustainable and responsible investment strategy.

- Achieve a downward trend in the level of carbon emissions from the equity portfolios, and a position better than reflected in the benchmark indices
- Achieve a rising ESG score from the equity portfolios and a position better than reflected in the benchmark indices.

Effective and Transparent Governance
to uphold effective governance showing prudence and propriety at all times.

- Aim to maintain costs below the CEM peer group median and below the CEM benchmark median.
- Aim to maintain administration costs per member at a level less than the England Average
- Aim to maintain the total cost of running the Fund as a proportion of assets below the England and UK averages.

Valuing and engaging our Employees
to ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

- Levels of sickness absence
- Aim to show an improving trend in staff engagement from staff survey data.
- Volume of training per member of staff (days).
- Aim for 100% of staff to receive an appraisal.

In addition to these indicators which we will use to understand the impact the work we are doing is having we will continue to monitor a range of process indicators for the administration service which are used to facilitate national comparisons.

What are the things which might stop us from achieving our objectives?

These are the risks that something might go wrong. The table on the following pages lists the various risks facing us and shows how the work that we are undertaking is intended to reduce the risk that we do not achieve our overall objectives.

Each risk has been scored by the Senior Management Team, and individual scores have been reviewed by functional specialists.

This risk register set the baseline position for this planning period and it will be reviewed on a regular basis over the next three years with changes reported to the members of the Authority as necessary.

South Yorkshire Pensions Authority Risk Register (as at December 2019)

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change	Review Date
G1	Governance	Failure to ensure that the elected Members knowledge and understanding of pensions related activities is robust and meets the statutory requirements in terms of Section 248a of the Pensions Act 2004.	Leading to ….. Improper scrutiny and challenge by elected Members; Mistakes, errors and omissions and non-compliance with statutory requirements; Failure to ensure contributions are collected; Failure to ensure benefits are calculated properly; Failure to ensure surplus monies are properly and prudently invested; Reputational damage in terms of censure from regulators.	Clerk to the Authority	Induction training provided to new Members which comprises a three day external training course; Programme of internal seminars; Periodic awareness presentations delivered to Members; A self-assessment framework for Members and Chairs is in operation but needs refining – this should assist in identifying training requirements; Lead member for training identified; Working to the spirit of CIPFA Code of Practice (Code of Practice on Public Sector Pensions Finance, Knowledge and Skills, revised in 2013 Production of Annual Report which includes commentary on Members training activities; External training augmented by internal training.	9	I = M P =M	2	I = L P = VL	Review of Member self-assessments. Addition of the Regulator's on line toolkit as a mandatory training requirement.	Clerk to the Authority Clerk to the Authority		31.03.2020
G2	Governance	Failure to ensure that the Local Pension Board is effective in carrying out its role.	Leading to ….. Ineffective scrutiny of the way in which the Scheme Manager (the Authority) exercises its responsibilities Action by the Regulator.	Clerk to the Authority and Fund Director	Induction training and commitment to an ongoing programme of learning and development for all members. Introduction of an independent element to ensure that the Board is not "officer led". Stabilisation of Board membership.	12	I=H P=M	10	I=H P=L	Additional learning development opportunities being provided.	Clerk to the Authority/ Fund Director		31.3.2020
I1	Investment and Funding	Failure to ensure that the Authority has appropriate access to its cash resources to meet its commitments to make payments. (Liquidity and credit risk.)	Leading to ….. Financial loss; Negative impact on overall financial viability of the Scheme; Inability to meet pensioner payroll costs and investment commitments. Reputational damage.	Fund Director	The Fund has immediate access to its cash holdings with the majority of cash being deposited for no longer than a week. Levels of cash holding are monitored daily. Treasury activity reviewed weekly by management and twice yearly by elected members with an annual review of limits. Treasury Management Strategy sets limits for the duration and risk profile of deposits with financial institutions. Triennial actuarial review considers contribution rates and cash flow requirements. New software available from the Actuary to assist with cashflows and funding level.	3	I = M P = VL	4	I = L P = L	Introduction of quarterly reporting of treasury activity to elected members. Consideration being given to splitting frictional cash (required for day to day purposes from cash awaiting investment).	Fund Director		31.03.2020
I2	Investment and Funding	Failure to maintain the gains in funding levels achieved since the 2016 valuation, either as a result of falls in the market value of investments or an increase in the value of liabilities.	Leading to ….. The need to maintain high (and possibly unaffordable) levels of deficit contributions. The need to increase future service contribution rates which may create financial difficulties for employers given the economic environment in which they operate. Critical review by the Government Actuary as part of their s 13 Valuation.	Fund Director/ Head of Investment Strategy	An equity protection strategy was implemented in March 2018. The Investment Strategy already looks to shift out of more volatile "growth" assets into less volatile income earning assets.	8	I = H P = L	4	I = H P = VL	First principles review of the Investment Strategy to be undertaken alongside the triennial valuation from April 2019 for implementation from April 2020. Options for containing or reducing liabilities (e.g. a trivial commutation review) will be examined following the actuarial valuation. However, in the meantime data cleansing activity will be focussed on areas that impact the value of liabilities.	Fund Director/ Head of Investment Strategy		31.3.2020
I3	Investment and Funding	Failure to implement effective arrangements for the oversight of investment management functions being undertaken by Border to Coast Pensions Partnership.	Leading to ….. Inability to adhere to Authority policies and potentially not be able to fulfil the Investment Strategy.	Head of Investment Strategy	BCPP is an FCA regulated body and as such is expected to adhere to the Stewardship Code and work within stipulated guidelines as set out in prospectus. These guidelines were set with discussion with underlying funds. Alignment of policies with underlying fund policies Ensured that BCPP have sub funds to allow SYPA to fulfil its strategy. Ongoing collaboration about policy. Ongoing collaboration regarding potential changes to Authority strategy.	8	I = H P = L	6	I = M P = L	BCPP have agreed a process for the provision of controls assurance with all the audit firms involved in the LGPS.	Head of Investment Strategy		31.3.2020

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Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change	Review Date
					Analysis of investment performance on a monthly/quarterly basis with detailed analysis on an annual basis.								
I4	Investment and Funding	Failure to secure products through Border to Coast which address the requirements of the Fund's investment strategy.	Leading to ….. Failure to achieve required investment return. Erosion of the overall value of the Fund. Negative impact on contribution rates at valuation points.	Head of Investment Strategy	Ongoing dialogue with both Border to Coast and partner funds in order to influence product development. Monitoring of developments in the market place and where appropriate championing these within discussions with Border to Coast and partner funds.	**8**	I = H P = L	**3**	I = M P = VL	Engagement with Border to Coast as an "implementation partner" in the development of the investment strategy.	Head of Investment Strategy		31.12.2020
I5	Investment and Funding	Impact of Climate Change on the value of the Fund's investment assets and its liabilities.	Leading to …… An increased gap between the value of assets and liabilities. Reduction in the level of investment income as companies failing to adapt to a low carbon economy become less able to pay dividends Changes in the liability profile of the Fund.	Fund Director and Head of Investment Strategy	Climate Change Policy in place in addition to the Responsible Investment Policy, supported by engagement activity with investee companies to encourage a planned and more rapid transition to a low carbon economy. Ongoing monitoring of the carbon intensity of equity portfolios every other year in place. Lower carbon tilt adopted within the equity portfolios and continued by Border to Coast. Investment in the extended opportunity set provided by the move to a low carbon economy targeted within the Alternatives portfolio, particularly infrastructure. Ongoing monitoring of demographic data by the actuary in place.	**15**	I = VH P = M	**9**	I = M P = M	Product from the Border to Coast Climate working party including providing more regular measurement of the carbon intensity of portfolios. Consideration of alternative investment approached as part of the Investment Strategy Review. Scenario planning within the context of the ongoing development and review of investment strategies.	Head of Investment Strategy Head of Investment Strategy Fund Director		31.03.2020
O1	Operational	Failure to ensure the Authority protects the data it owns and the data it handles against inadvertent release and cyber-security threats.	Leading to ….. Loss of personal information resulting in reputational damage and censure by Information Commissioner; Loss of trust from partner organisations; Successful attacks by hackers or third parties; Disruption and delays. Cyber risk – the risk of loss, disruption or damage to the Authority or its staff/members due to its information technology systems and processes failing. Including risks to information, data security, as well as assets and both internal risks from staff and external risks from hacking and computer misuse.	Fund Director	Data backup undertaken daily and backed up information removed from site; Disaster Recovery Procedures and Business Continuity Plan in place; External audit by third party organisations the Authority works with; Reporting of Incidents to Information Commissioner; Information Governance training included in the training programme; Independent Data Protection Officer established ; Contract management arrangements regarding the software provided by SY Pensions to third parties includes performance management consideration; Physical security of offices improved following relocation to Gateway Plaza Cloud based email management platform including targeted threat protection against email borne threats such as malicious URL's, malware, impersonation attacks and internally generated threats; ICT Security Policy and an effective system of governance in place; Mandatory GDPR/data protection and cyber security training for all staff; Comprehensive Patch Management Policy covering all desktop and server hardware/software; Annual ICT health checks and penetration testing via a CREST certification body; Cyber Essentials Plus Accreditation; Police vetting clearance for ICT staff; The principle of least privilege applied to all user accounts.	**8**	I = H P = L	**6**	I = M P = L	Bi Annual review of Business Continuity Plan. Data breaches reported to Local Pension Board quarterly for scrutiny. Data Protection Officer Assurance programme introduced. Reduction of in-house 'manual' mailing of personal data. Move to secure online communications with members where possible (e.g. Annual Benefit Statements). Cyber Security training identified for all staff; Develop an incident response plan to deal with incidents and enable the Authority to swiftly and safely resume operations; Establish an Incident Response Retainer; Migration to advanced cloud based Anti-Virus/End Point Protection solution; Database encryption of sensitive data.	IT Manager Head of Pensions Administration Head of Pensions Administration Head of Pensions Administration IT Manager		31.3.2020
O2	Operational	Failure to meet statutory requirements for disclosure of information to scheme members.	Leading to ….. Poor customer service and reputational damage. Censure and potential fines from the Pensions Regulator and other statutory bodies; Potential for inaccurate data to flow into the 2019 actuarial	Head of Pensions Admin	Production of the ABS is dependent on receipt of timely returns from employers. The updated Administration Strategy from March 2018 incorporates SLA's and improves upon them in terms of fines being levied for employers who are non-compliant; Production process for 2018 was brought forward to ensure sufficient contingency time; Joiner/leaver processes configured to meet statutory	**6**	I = M P = L	**2**	I = L P = VL	Introduction of monthly data collection from April 2018 removes reliance on year-end returns so production process will begin in June rather than July from 2019; ABS's to be issued online from 2019 which further reduces the production schedule and process can be managed	Head of Pensions Administration		31.08.2020

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Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change	Review Date
			valuation process and to impact the correct calculation of member benefits.		disclosure requirements.					fully in house; Administration performance reporting to Authority to focus on statutory compliance from 2019-20; Data Quality Improvement Plan to be implemented.			
03	Operational	Closure of Government Guaranteed Minimum Pension service and reconciliation exercise.	Leading to ….. Significant under/overpayments of existing pensions in payment causing member hardship and reputational damage; Workload pressures of adjustment to excess volumes of member records. Failure to maintain adequate records going forward.	Head of Pensions Admin	Reputable external provider appointed to meet initial HMRC deadline of 31 October 2018; External provider currently handling responses finally received from HMRC to all mismatch queries raised and the final report of the totality of GMP liability for the Fund is expected from HMRC by 31 December 2019. Once this is received from HMRC the external provider will be engaged to carry out a full final reconciliation across the database before we move to rectification. The final reconciliation is expected to be a two month project.	**12**	I = H P = M	**6**	I = M P = L	Liaison with LGPS funds to aim to ensure consistent approach to rectification once reconciliation finalised. Assurance work to be commissioned once HMRC issue final liability report	Head of Pensions Administration		31.07.2020
P1	People	Failure to maintain a suitably qualified and experienced workforce which reflects the community which the Authority serves.	Leading to ….. Continuing imbalances in the Authority's workforce which create the potential for a sudden loss of a significant amount of experience. Skills gaps through a lack of succession planning. Reputational damage through criticism of the lack of diversity in the workforce. Impact on productivity and organisational resilience.	Fund Director	A structured career grade scheme supported by highly structured and exam based training is in place for a key group within the pension administration workforce. Procedures within pension administration are well documented. Identification of potential single points of failure and production of plans to eliminate them. Production of an HR and Organisational Development Strategy targeting these issues.	**9**	I = M P = M	**6**	I = L P = M	Full implementation of the HR and Organisational Development Strategy. Formalise workforce and succession planning arrangements Implement Management. Development Programme covering all staff with supervisory and wider management responsibilities. Identification of potential single points of failure and production of plans to eliminate them.	Fund Director		31.03.2020

Key: P = Probability I = Impact VL (1) = Very Low; L (2) = Low; M (3) = Medium; H (4) = High; VH (5) = Very High

Risk Matrix

5 Very High	5	10	15	20	25
4 High	4	8	12	16	20
3 Medium	3	6	9	12	15
2 Low	2	4	6	8	10
1 Very Low	1	2	3	4	5
	1 Very Low	2 Low	3 Medium	4 High	5 Very High

PROBABILITY

Risk Score

Risk Score	RAG Rating
0 – 5	Low
6-14	Moderate
15-25	High

What's it all going to cost?

SYPA's budget is not like that of a local authority in that it is not funded from council tax and business rates, and any costs that are incurred can be charged to the pension fund. However, that does not mean that we can operate free of financial constraints, we have a responsibility to spend as little as we can to ensure that stakeholders benefit to the maximum degree possible from the performance of the pension fund.

Our medium term financial strategy, which has been produced alongside this corporate strategy sets out our overall financial forecasts and a series of self-imposed rules which we will use to minimise the impact of our costs on the Fund. Equally, though we need to accept that in order to deliver some of the improvements we want to see we will need to invest up front in some projects.

Operating Budget

The Operating Budget represents the cost of running the Authority's activities including Pension Administration, oversight of the investment strategy and the costs of governance. These costs, like a council budget, are controllable and the Fund Director is accountable to the members of the Authority for spending within the budget. The table below provides a summary of the budget for 2020/21 and forecasts for future years.

South Yorkshire Pensions Authority Operating Budget	2019-20 Q2 Forecast Outturn £	2020/21 Budget £	2021/22 Estimate £	2022/23 Estimate £
Employees	3,431,860	3,550,990	3,582,735	3,638,495
Running Costs	1,659,470	1,963,010	1,971,910	1,992,960
Subtotal: Gross Expenditure	**5,091,330**	**5,514,000**	**5,554,645**	**5,631,455**
Income	(185,580)	(115,000)	(115,000)	(115,000)
Subtotal: Net Expenditure	**4,905,750**	**5,399,000**	**5,439,645**	**5,516,455**
Contribution to Reserves	539,500	46,600	12,005	4,005
Total Charge to Pension Fund	**5,445,250**	**5,445,600**	**5,451,650**	**5,520,460**
Membership	160,100	164,100	168,200	172,410
Cost Per Member	**£34.01**	**£33.18**	**£32.41**	**£32.02**

The budget for 2020/21 while not reflecting a cash increase in total spending does reflect considerable redirection of resources (c£0.5m) into areas of priority, including

- Learning and Development – To address the need for ongoing professional development, the need to improve management skills across the organisation and address the risks around succession planning identified in the risk register.

- Communication and Engagement – Ensuring that the organisation is able to fully utilise the technologies available to engage with scheme members and employers.
- Governance – Ensuring that the Authority is able to fully demonstrate compliance in areas such as the Pensions Regulator's Code of Practice 14 as well as preparing to meet the requirements of the Good Governance Review.
- Technology – Putting in place fully financed replacement programmes for both hardware and software and also resources to ensure that programmes of ICT development are effectively managed and that the realisation of benefits is properly captured.
- Health and Wellbeing – Funding a series of health and wellbeing initiatives to support our staff and add to the employee value proposition.

By managing to redirect resources in this way the total costs of the Authority measured on a per member basis continue to decline over the planning period and the broad financial strategy targets in this area are likely to be exceeded. It does, however, remain likely that further investment will be needed in the later years of the planning period, to address issues such as the final resolution of the McCloud case which will, inevitably, further increase the complexity of an already complex scheme and the continuing need to invest in automating our processes so as to continue to increase productivity in the face of continuing increases in the number of both members and employers.

The Pension Fund

The table below sets out a financial forecast for the Pension Fund including the Operating Budget and all other costs incurred in the running of the Fund, such as investment management fees which are charged directly to the Fund.

South Yorkshire Pension Fund Financial Forecast	Forecast 2019/20 £	Forecast 2020/21 £	Forecast 2021/22 £	Forecast 2022/23 £
Dealings with members, employers and others directly involved in the scheme:				
Contributions and transfers receivable	(255,821,120)	(302,703,900)	(313,150,410)	(324,147,290)
Benefits payable	342,618,290	332,368,930	349,491,090	365,962,070
Net withdrawals from dealings with members	**86,797,170**	**29,665,030**	**36,340,680**	**41,814,780**
Management expenses	50,769,020	65,388,510	67,587,450	74,122,500
Net returns on investments	(483,604,750)	(455,279,670)	(478,923,530)	(506,307,500)
Net increase in the Fund during the year	**(346,038,560)**	**(360,226,130)**	**(374,995,400)**	**(390,370,220)**
Net Assets of the Fund At 1 April	(8,439,964,660)	(8,786,003,220)	(9,146,229,350)	(9,521,224,750)
Net Assets of the Fund At 31 March	**(8,786,003,220)**	**(9,146,229,350)**	**(9,521,224,750)**	**(9,911,594,970)**
Management Expenses as % of Average Net Assets	**0.59%**	**0.73%**	**0.72%**	**0.76%**

This forecast shows costs increasing both as assets are moved into more expensive asset classes and as the impact of improved cost disclosure becomes evident. These changes are what would be expected, and comparisons with other funds will continue to be distorted while disclosure of costs remains as inconsistent as is currently the case. However, more importantly in terms of how the Fund is managed and strategy going forward is the increasing imbalance between contribution income and benefit expenditure which needs to be met from investment income. This will be a dominant theme in all the work undertaken by the Authority in relation to investment strategy over the planning period.

What about our people?

While they do not appear on our balance sheet our people are SYPA's most valuable asset, we will deliver none of the projects outlined in this corporate strategy without their engagement and commitment. At the same time while rewarding staff fairly and treating them with respect and compassion we do need to continually review our employment policies to ensure that they support us in being the sort of organisation we want to be.

We employ 92.4 full time equivalents who have an average length of service of nearly 16 years. Our workforce is on average older, whiter and more female than the communities we serve and in particular the age composition of the workforce presents challenges for us going forward with a significant number of retirements having taken place in the last 12 months and further retirements likely over the remainder of the planning period. As a result of this and the deliberate holding of vacancies to facilitate the restructure of the Administration Service, and a small amount of growth we are currently recruiting to more than 10% of roles in the organisation. This means we will need to place additional emphasis on induction training. In addition we now have the opportunity to ensure that we are skilling up the next generations of managers and supervisors within our workforce.

A number of the actions set out in the Action Plan within this corporate strategy reflect our response to these challenges and more detail is set out in the Human Resources Strategy which h sets out much more detail both on the challenges we face and the specific actions we propose to take, across three themes:

- Developing the current workforce to meet the needs of the organisation
- Recruiting a workforce for the future
- Retaining a high quality workforce

The degree of change which we face over the planning period means that ensuring that this work is an extremely high priority if we are to successfully achieve the broader objectives set out in this Corporate Strategy.

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Subject	Medium Term Financial Strategy 2020/21 to 2022/23	Status	For Publication
Report to	Authority	Date	23 January 2020
Report of	Treasurer Fund Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Gillian Taberner Head of Finance & Corporate Services	Phone	01226 772850
E Mail	gtaberner@sypa.org.uk		

1 Purpose of the Report

1.1 To present the Authority's Medium Term Financial Strategy 2020/21 to 2022/23 for consideration and approval.

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2 Recommendations

2.1 Members are recommended to:

a. **Approve the Medium Term Financial Strategy 2020/21 to 2022/23**

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3 Link to Corporate Objectives

3.1 The attached Medium Term Financial Strategy (MTFS) sets out the forecast for the running costs of the Authority and for the estimated income and expenditure of the Fund over the next three years and sets the Authority's financial objectives for the period. The strategy is framed in terms of providing sufficient resources to support the delivery of all the corporate objectives set out below.

3.2 The MTFS preparation and approval process itself links to the 'Effective and Transparent Governance' objective by ensuring that the financial plans are transparent, are subject to proper scrutiny and oversight, and that the Authority is accountable for its use of resources.

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes.

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

Valuing and engaging our Employees

To ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

4 Implications for the Corporate Risk Register

4.1 The financial objectives and forecasts outlined in the MTFS are designed to support strong financial management and ensure that sufficient resources are available for the risk mitigation actions being taken as set out in the Corporate Risk Register.

5 Background and Options

5.1 The attached MTFS presents the financial forecasts for the Authority and for the Fund. The financial strategy is designed to support the delivery of the policy position and objectives set out in the Corporate Strategy and is updated annually at the same time as that strategy so that the financial objectives align with the corporate objectives.

5.2 The MTFS also provides a framework of rules within which the Authority will determine the resources available to fulfil its functions. This framework was set for the first time in last year's MTFS. In the updated MTFS attached, this framework remains in place and the specific measurable financial objectives and limits within it have been updated as appropriate to meet the needs and circumstances of the Authority over the next three years.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	As set out in the MTFS attached.
Human Resources	The Authority operational budget includes an assumption of a pay award of 2% p.a. over the period of the MTFS; the actual pay award will be determined by the National Joint Council for Local Government Services.
ICT	No direct implications. The Authority operational budget proposals include specific resources for the development of the ICT infrastructure and systems available as set out in the main body of the report.
Legal	No direct implications.
Procurement	No direct implications.

Neil Copley **George Graham**

Treasurer **Fund Director**

Background Papers	
Document	**Place of Inspection**
Budget and MTFS working papers	Floor 8 Gateway Plaza, Sackville Street, Barnsley

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Medium Term Financial Strategy

2020/21 to 2022/23

CUSTOMER SERVICE EXCELLENCE

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Contents

1. Foreword

1.1 Foreword to the Medium Term Financial Strategy 2020/21 to 2022/23

1.1.1 This Medium Term Financial Strategy (MTFS) has been produced by the South Yorkshire Pensions Authority to cover the period from April 2020 to March 2023. This period will see the implementation of the results from the 2019 Actuarial Valuation as well as the continuing transition of the Authority's remaining investment assets into the pooling structures provided by the Border to Coast Pensions Partnership.

1.1.2 The strategy covers both the costs of running the Authority's operations and the income and expenditure of the pension fund, although this is significantly more difficult to forecast than routine running costs such as staff salaries.

1.1.3 Any financial strategy is based on a series of key assumptions and throughout this document these assumptions are highlighted, and will be subject to ongoing review as the process of producing this strategy develops over time.

1.1.4 The financial strategy (and the budget which is the annual expression of the strategy) is, put simply, the financial expression of the policy position set out in the corporate strategy. Hence this strategy will be updated each year as the Corporate Strategy is updated to reflect changed circumstances.

1.1.5 While SYPA is less exposed to the wider constraints on the public sector financial environment than our colleagues in the major employing organisations within the Pension Fund, we still have a responsibility to manage the resources for which we are responsible in such a way that our expenditure does not negatively impact on the overall performance of the Pension Fund. This strategy sets out how we aim to achieve this in as transparent a way as possible.

2. Setting the context for the medium term financial strategy

1.1 Public Sector Finance

1.1.1 The public sector financial environment is probably the most significant factor defining the context in which this strategy is developed. Key issues, like the level of pay awards, have an impact both on some aspects of the Fund's liabilities as well as upon elements of the Authority's cost base.

1.1.2 The main factors affecting the Authority and the Fund are concerned with local government finance. In general terms, growth in local government spending tends to lag growth in the generality of government spending, although pay tends to mirror the headline change in public sector pay.

1.1.3 The most recent pay agreement ends in March 2020 and negotiations to determine any award for the period from April 2020 are in their very early stages. The consensus view of forecasters and treasurers seems to be that there is unlikely to be any significant widening of the financial envelope for local government in the forthcoming period following the outcome of the General Election in December 2019.

1.1.4 What this means for the Authority and the Fund is that it is likely that headline pay increases in the medium term will be at around, or possibly below, the level of the last agreement at 2%, and that major employers (and probably schools and colleges as well) will continue to need to identify significant year on year savings. This has wider effects on a number of areas, including the affordability of contribution rates, the balance of membership between active, deferred and pensioner members, and the number of early retirements on grounds of redundancy. These factors will influence the value of benefits in payment, the average lifetime in retirement and the value of lump sum "strain" payments into the Fund. All of these factors will need to be reflected in forecasts of income and expenditure and in the debate over contribution rates at each valuation.

1.2 The Pensions Sector

1.2.1 What is happening in the wider pensions sector impacts the Authority and the Fund in a less direct way, although no less significantly. For example a significant change in the funding level of the remaining private sector defined benefit schemes could change the value of certain assets classes used to address the results of the change (e.g. a search for index linked gilts if funding levels increased). This could impact on the potential rate of growth in the value of the Fund or could make it harder to deploy capital into specific types of asset if other funds take up the supply of assets.

1.2.2 In addition, trends in the wider pensions sector tend, over time, to influence developments within LGPS and in the public sector pensions' space. These trends may arise from regulatory emphasis, such as the continuing focus on data quality, or from changes in technology such as the growing emphasis on various forms of e-communication, and methods of engaging with scheme members.

1.3 The Economic Environment

1.3.1 The wider economic environment impacts the Fund in terms of both its assets and its liabilities. Clearly the underlying economic environment impacts the performance of investments in the financial markets while key metrics such as inflation and interest rates feed in to the actuarial calculations which determine the Fund's liabilities.

1.3.2 It remains incredibly difficult to forecast the movements in key economic indicators therefore it makes sense for this strategy to use assumptions based on key factors already reflected in the financial framework such as the assumed level of investment return included in the actuarial valuation. This is not a protection against any forecast being wrong

– it almost certainly will be – but it means that the strategy is based on an underlying set of assumptions that have been subject to a more rigorous set of testing than it would be possible to achieve internally.

1.4 The Starting Point

1.4.1 The starting point has a significant impact on any strategy. In this case, the starting point is reflected in the current cost base for the Authority's operations and its fund management arrangements and the level of funding within the scheme, which based on the 2019 valuation results reflects a significant improvement on the 2016 position.

1.4.2 In some senses the starting point is possibly more influential than other aspects of the context, for example achieving full funding, or close to full funding would lead to an alteration to the strategic asset allocation moving funds out of equities into less volatile, preferably income generating assets. Unfortunately these tend to be more expensive assets to manage thus a change in the cost base is almost inevitable. Whether the focus is on net of fees return or gross fees is irrelevant because both will ultimately have the same impact on the value of and performance of the Fund.

1.4.3 For the South Yorkshire Pension Fund, the starting point is, based on the 2019 valuation results very close to full funding. This impacts employers' deficit recovery contributions. At this stage no change in the strategic asset allocation can be assumed as the investment strategy review is due to be completed in March 2020. At this stage while there are likely to be some changes in asset mix it is not anticipated that these will fundamentally change the balance between different types of asset.

3. Financial objectives

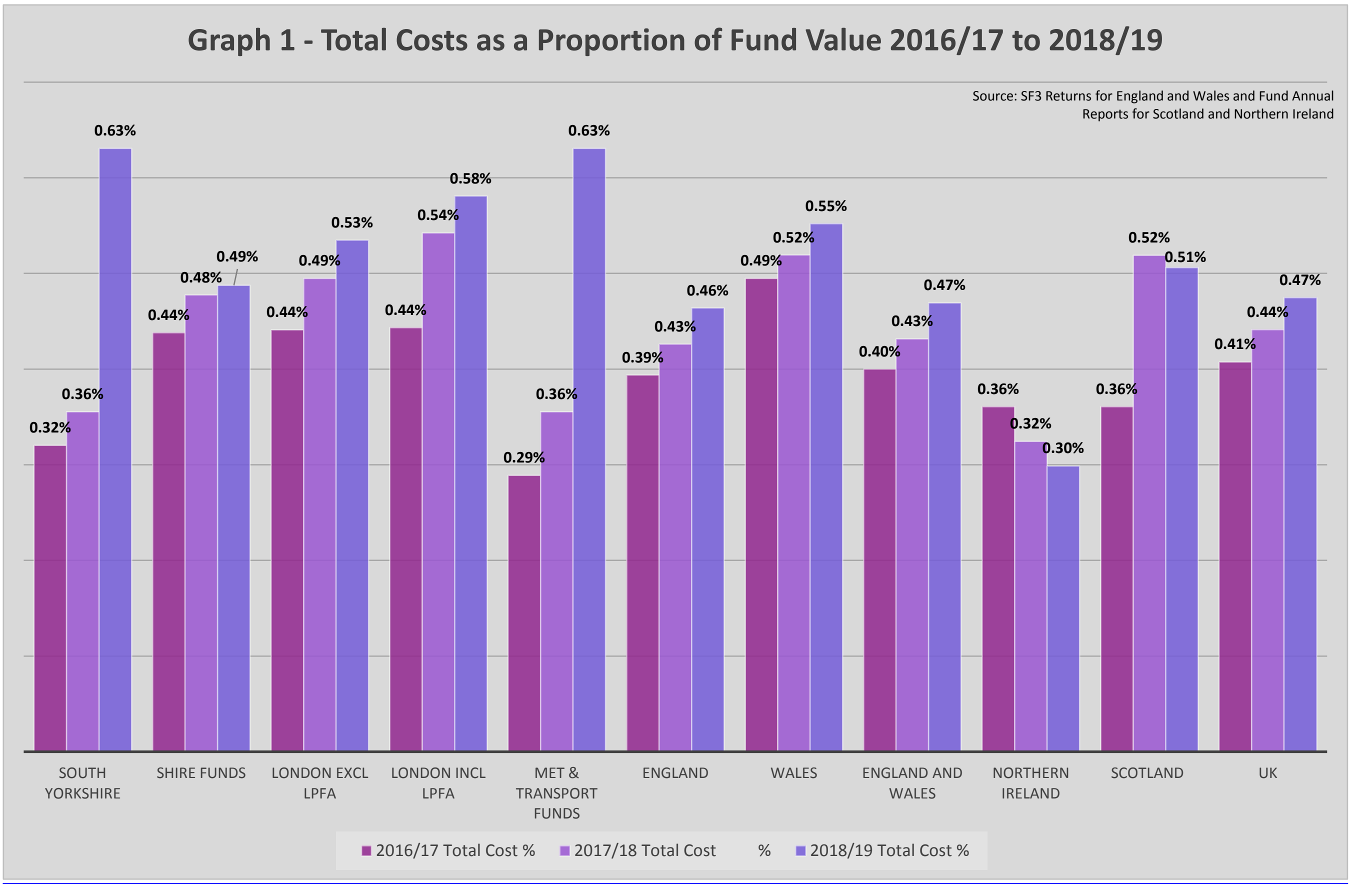
1.5 Financial Objectives

1.5.1 For any strategy it is important to understand what you are aiming to achieve. This is no less true of this MTFS and this section sets out objectives in relation to the control of costs in the overall context of the Fund. In order to set these objectives we need to understand how SYPA's costs compare to the rest of the LGPS funds.

1.6 Comparative Costs

1.6.1 The only real source of data to compare SYPA with other LGPS funds is the annual SF3 return completed by all English and Welsh funds and submitted to MHCLG. Similar data for the Scottish and Northern Irish funds can be added to this from fund annual reports to give a UK wide comparison. There are flaws with this data, particularly with regard to the disclosure of non-invoiced investment costs, which are gradually being worked out of the system. However, it is the only comprehensive data set available and does give a broad indication of how SYPA compares with other LGPS funds.

1.6.2 Graph 1 below shows how SYPA's total costs compare with those of both the totality of other LGPS funds and of particular types of fund for the last three financial years from 2016/17 to 2018/19.



1.6.3 This appears to show that South Yorkshire's costs as a proportion of Fund value increased significantly in 2018/19, resulting in us moving from being one of the lowest cost to being one of the highest cost Funds in this comparison. However, it is important to note that the largest part of the difference in South Yorkshire between 2017/18 and 2018/19 represents an increase in *reported* investment costs, rather than actual costs. Therefore, these statistics must be set in the context of the drive to greater cost transparency and improved reporting of investment management expenses that are not invoiced but deducted at source from Net Asset Value (NAV). In 2018/19 SYPA, with the aid of Border to Coast, made significant progress in this regard, enabling the separate identification and reporting of an additional £19 million of such costs compared to the prior year. It is evident from the national results that our progress has out-paced that of the majority of other Funds. It is anticipated that over the next couple of years, a similar impact will be seen within the other Funds and that will make these comparisons more useful as they will be on a more 'like-for-like' basis.

1.6.4 The 2018/19 total costs for SYPA also include non-recurrent Pooling implementation and transition costs of almost £4 million in total.

1.6.5 The following table presents more detail of the investment costs and this demonstrates the impact of the enhanced reporting of these external management costs that are deducted at source.

Investment Management Expenses - Breakdown	2017/18 £000	2018/19 £000	Year on Year Change £000
Pooling Implementation Costs	406	1,935	1,529
Internal Management Costs	974	672	(302)
External Management Costs - Invoiced	3,764	5,335	1,571
External Management Costs - Deducted at Source	18,741	37,884	19,143
Pooling Transition Costs - Deducted at Source	0	2,370	2,370
VAT Liability	255	516	261
Total Investment Management Expenses	**24,140**	**48,712**	**24,572**
Fund Value at 31 March: £000	8,030,353	8,439,965	409,612
Investment Costs as Percentage of Fund Value	0.30%	0.58%	0.28%
If Pooling Implementation and Transition Costs Are Excluded:			
Total Investment Management Costs: £000	23,734	44,407	20,673
Investment Costs as Percentage of Fund Value	0.30%	0.53%	0.23%

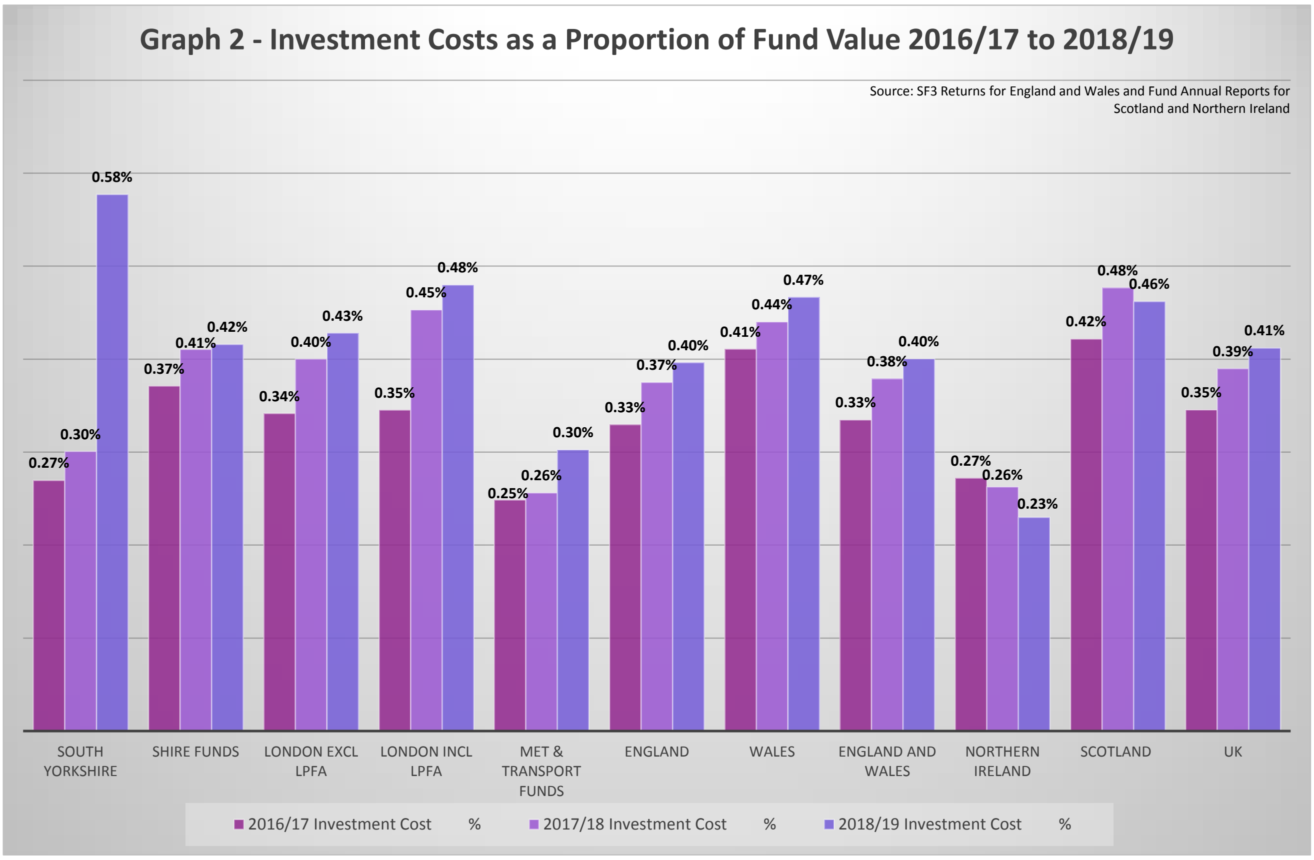
1.6.6 The Authority is confident that our performance in controlling actual costs overall remains strong; but there is no room for complacency and we continue to closely monitor this area in light of the following factors that are driving cost increases:

- The Fund's strategic asset allocation is moving more of the portfolio into unlisted assets such as private equity and infrastructure which in general tend to be more expensive to manage.

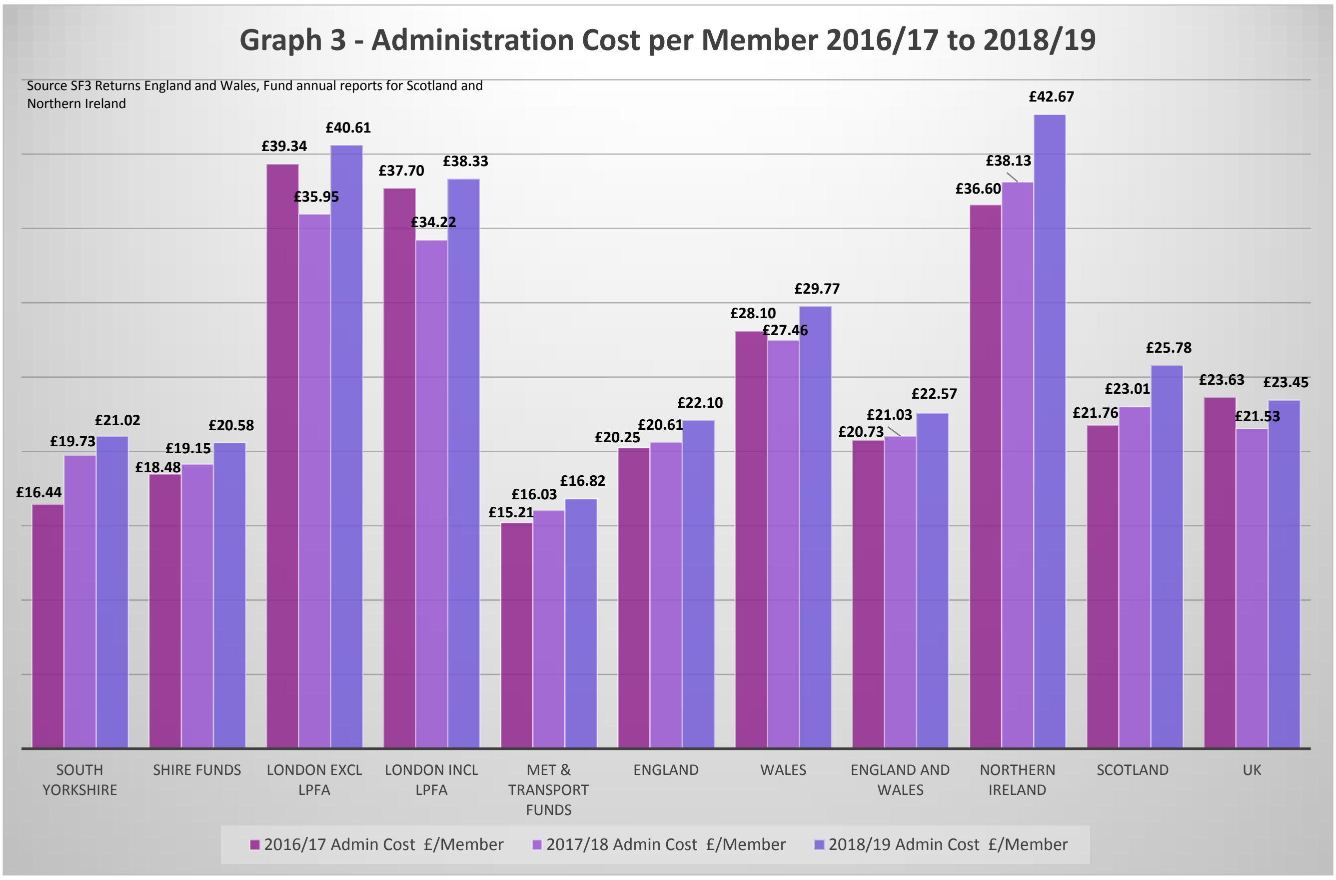
- The Government's pooling initiative results in SYPA's listed assets in future being managed within pooled structures provided by Border to Coast which, while cheap in comparison to external managers, are more expensive than the previous, admittedly unsustainable, in-house arrangements.

1.6.7 There are specific factors which might be expected to give rise to SYPA having a higher than average cost base, in particular the fact that it is a stand-alone pension organisation bearing its own corporate overheads, rather than sharing them with a council. This has not been borne out by the data in recent years but will be kept under review as part of the budget process going forward, particularly as the Authority continues to invest in the development of the organisation and governance.

1.6.8 The total cost shown in Graph 1 can be analysed in more detail by looking at the following two graphs which separate out SYPA's Investment and Administration costs and how these compare with the rest of the Local Government Pension Scheme across the UK.



3.2.9 While these investment costs show a significant increase and a divergence from the previous position this is, as explained above, a result both of improved disclosure and transition and pool set up costs. The level of under reporting across LGPS is made clearer when the CEM benchmarking data is examined which gives a peer group median investment costs of 61.5bps which compares to South Yorkshire's 58bps shown above and the 60.4bps included in the CEM report which reflects a slightly different reporting basis. Given this it is clear that until the issues of under-reporting investment costs are addressed that the use of a pure LGPS comparator based on published accounts is unlikely to add any value.



3.2.10 It is evident from Graph 3 that Administration costs for the Authority, whilst increasing slightly from 2017/18, remain at the lower end of the spectrum of costs.

3.2.11 In regard to Administration, SYPA is benefitting from the economy of scale that comes from serving a large fund, while the much smaller London funds clearly see the diseconomies which arise from servicing much smaller funds. It is evident that all classes of funds have seen an increase in the administration cost per member in 2018/19, including ourselves. Therefore it is important that we continue to monitor the cost base and comparing our costs with other pension funds is a useful tool to inform this. However, it is important to assess this in a holistic way by benchmarking not only the cost but also the quality of service provision. During the current financial year, we have therefore participated for the first time in an additional benchmarking exercise for Pensions Administration provided by CEM, an independent provider with wider involvement in supporting the pensions sector outside of the LGPS. This form of benchmarking differs from the comparisons above, and the CIPFA benchmarking that we continue to use, in that it examines our performance from a scheme member perspective rather than focusing purely on cost.

3.2.12 The Authority will continue to make use of benchmarking in order to inform an on-going assessment of how we are performing in relation to the achievement of value for money. The challenge is how to use this information to set some clear objectives which will assist the Authority in managing its cost base while continuing to facilitate investment in the continued development and improvement of services to scheme members.

3.3 Financial Objectives

3.3.1 The Authority needs to set financial objectives which focus on the key streams of activity within its operations, administration and investment while bringing these together to focus on total cost. These objectives will mirror the financial constraint imposed on the district councils by the grant system, thus ensuring that SYPA is taking no more from the pension fund for its running costs than is absolutely necessary.

3.3.2 At the same time the Authority must be careful, as a small organisation, not to "shoot itself in the foot" by setting unachievable financial objectives which generate relatively large scale savings targets, which could not be delivered without impacting the customer experience.

3.3.3 For Pensions Administration, the financial objective may be framed as follows:

> *"The annual increase in the budgeted cost per member for administration functions will be limited to an index made up of 70% local government pay and 30% August CPI."*

3.3.4 This limits the rate of increase in costs while allowing the benefits of any increase in productivity to be re-invested in the quality of the service provided to members, which is broadly in line with the Authority's overall objectives. Such an approach also provides some buoyancy in the level of resources available in order to address the rising number of members and employers within the Fund. A similarly expressed objective could be placed on the Authority's overall operating budget, which would place a helpful constraint on corporate costs. These two objectives are illustrated in the table below.

Cash Limits for Operational Budget	2020/21 Baseline[1] £ / Member	2021/22 Cash Limit[2] £ / Member	2022/23 Cash Limit[2] £ / Member
Administration Service	£20.57	£21.01	£21.46
Authority Operational Budget	£33.18	£33.88	£34.60

Notes

1. The 2020/21 cost per member is based on the relevant totals included within the Authority's operational budget as presented for approval at the Authority's January 2020 meeting. The equivalent figures for SF3 reporting purposes will be slightly higher because they additionally include non-recoverable VAT which is not part of the Authority's total operating budget.

2. The future years' cash limits are calculated by applying an inflationary increase of 2.12% which comprises 2% Local Government Pay Inflation in line with the assumptions in the budget, and 2.4% CPI Inflation in line with the Actuary's assumptions; both weighted in accordance with the financial objective set out above.

3. Membership is assumed to increase at 2.5% per year in line with recent trends.

3.3.5 Following the transfer of staff in 2018/19 to Border to Coast, the Authority incurs a much smaller investment-related cost within its operating budget. The vast majority of these costs will be incurred within the Fund either within legacy investments or the pooling structures. Given that broadly investment costs have a relationship to the value of invested assets it would be sensible to have an objective which recognised this, but also recognises the fact that the Authority's investment strategy is to move out of listed into unlisted and more expensive assets and also that the Authority's overall objective is to achieve the best possible net of fees risk adjusted returns meeting the actuarial return objective (currently c. 4.2%pa). This means that any financial objective around investment costs should not place an artificial constraint which prevents the Authority from making the right investment decisions.

3.3.6 Given the information set out above framing an objective in relation to investment costs is quite difficult. However, something along the following lines could be appropriate:

“In any financial year, the Authority will seek to limit investment management expenses to a level less than the median in the CEM benchmarking comparator group.”

3.3.7 Given the limitations to an LGPS comparator set out above this metric provides a more realistic target which is based on a much wider international peer group and reflects full cost transparency for all participants, thus there will be a like for like comparison. Using the CEM measure also means that the Authority will have access to data which will allow it to understand how and why its costs differ from others within the peer group.

3.3.8 The targets set out in these financial objectives will be reviewed each year in the context of their impact on the Authority’s overall financial position and their impact on the ability of the Authority to deliver its corporate objectives, while still driving improvements in efficiency. In addition to these objectives which can easily be measured in budget setting and which in effect place cash limits on the Authority’s budget, a number of financial performance measures related to comparative costs will be part of the suite of Corporate Strategy measures.

4. Financial forecasts

4.1 Forecast Assumptions

4.1.1 Any financial forecast is based on a series of assumptions. This is the first time that the Authority has produced a longer term financial forecast for its activities, hence the assumptions related to a number of highly volatile items (such as investment returns and transfer values) will need to be refined over time. The key assumptions are set out below:

- **Pay -** Pay awards will average 2% over the period in line with the headline increase in the most recent local government pay award.
- **Prices -** CPI inflation will be 2.4% over the period in line with Actuary's assumptions for the 2019 valuation. This impacts a small portion of the operational budget but is a key driver for the cost of benefits in payment.
- **Contribution Income –** The forecast is based on the preliminary actuarial results of the 2019 Valuation for Future Service Rates and Deficit recovery payments that will apply from April 2020.
- **Volume Driven Benefits and Transfers Costs/Income -** These are based on four year moving averages, adjusted where relevant for known large one off items such as the transfer of the Probation Service's portion of the Fund to the Greater Manchester Fund.
- For the operational budget, the forecast is based on the pay and prices assumptions shown above and has been re-set to take account of wider changes in the organisation.
- Investment returns are assumed to be in line with actuarial assumptions.
- External investment management costs have been separately analysed in order to produce the forecast based on experience to date plus known changes and estimated changes as a result of continued transition to Pooling.

4.1.2 Based on current knowledge, these assumptions are reasonable. We will continue to develop and refine our forecasting techniques over the period to provide a robust basis for resource planning.

4.2 Operational Budget Forecast

4.2.1 The forecast for the operational budget is summarised in the table below:

Operational Budget	2020/21 Budget £	2021/22 Estimate £	2022/23 Estimate £
Employees	3,550,990	3,582,735	3,638,495
Running Costs	1,963,010	1,971,910	1,992,960
Subtotal: Gross Expenditure	**5,514,000**	**5,554,645**	**5,631,455**
Income	(115,000)	(115,000)	(115,000)
Subtotal: Net Expenditure	**5,399,000**	**5,439,645**	**5,516,455**
Contribution to Reserves	46,600	12,005	4,005
Total Charge to Pension Fund	**5,445,600**	**5,451,650**	**5,520,460**
Membership	164,100	168,200	172,410
Cost Per Member	**£33.18**	**£32.41**	**£32.02**

4.2.2 The operational budget for 2020/21 has been prepared on the basis of a comprehensive, line-by-line review of the cost base of the Authority and includes a reallocation of resources in order to direct the resources available to support a number of areas of growth required to underpin the delivery of the Corporate Strategy. Full details are provided in the Budget report being presented to the Authority for approval. Some of the key cost pressures that have been addressed in this budget are as follows:

- Employee Learning & Development – Investment in developing individuals, including induction, annual programmes of mandatory training, e-learning, professional training and management skills.
- Corporate Governance – Investment in additional resources to ensure timely review of organisational policy framework, to support the democratic process and to monitor compliance and risk.
- Communications & Engagement - as part of ensuring a continuing focus on the needs of our customers, we will invest resources to ensure that suitable processes, tools and technology are in place to enable a greater understanding of the quality and quantity of customer interactions, and to ensure we communicate effectively with all our stakeholders.
- Back Office – Investment to modernise the Authority's back office systems as investment pooling changes the nature of the back office, to become more of a traditional support service than an adjunct to the investment function.
- ICT Infrastructure – Resources have been allocated to support continued development in this area, including the upgrade of MS Office software and back-up solutions as well as investment in the hardware replacement programme with an emphasis on enabling agile working.

4.2.3 The estimates for the remainder of the Medium Term set out above are based on projecting the 2020/21 budget forward, including inflationary increases as necessary.

4.2.4 There will be a continuing pressure for investment and there is equally a need for the Authority to look to deliver savings and efficiencies. These will come through the delivery of work already in hand such as moves to reduce the volume of printing and postage and moves to online interaction with scheme members. However, savings do not always come as direct reductions in the budget. For example, if the administration team does not increase its total head count over the planning period this, all other things being equal, is a productivity improvement (based on the ongoing increase in membership) that equates to a little over 2 FTE each year. These sorts of improvements will be captured and reported in future iterations of this strategy.

4.2.5 The key risks and uncertainties in relation to this forecast are as follows:

- Pay settlements and inflation running at a higher level than assumed in the forecast. This is clearly a risk, and in the case of pay there is significant pent up pressure in the system following a prolonged period of pay restraint. The forecasts used are prudent and reflect a broad consensus view. In the event of higher costs than forecast, managers will seek to absorb the in-year impact through the management of vacancies and seeking to either defer one off expenditure or avoid aspects of running cost expenditure. This is the usual process of budgetary control and it seems unlikely that any cost increases would be on a scale beyond that which measures of this sort could address.
- Deterioration in budgetary control. There has been some change in managerial personnel at senior management level over the last year and work has since been undertaken to strengthen budgetary control processes and procedures. There is therefore no indication of any likelihood of deterioration. The controls in this regard will be subject to internal audit review in the forthcoming financial year.
- Loss of external income. This is mitigated through prudent budgeting, for example not including any assumptions around additional software sales which tend to be sporadic and through securing longer term agreements with customers with staggered end dates so that not all agreements come to an end at the same time.

4.2.6 The operational budget is relatively low risk and is relatively simple in comparison to the Fund Budget being many times smaller and much less volatile. Consequently while it understandably receives specific scrutiny as a cost that, in effect, has to be borne by participants in the Fund, variations are unlikely to have a material impact on the overall standing of the Fund.

4.3 Pension Fund Forecast

4.3.1 The table below presents a summary of the forecast for the Pension Fund for the current and coming three years.

South Yorkshire Pension Fund Financial Forecast	**Forecast 2019/20 £**	**Forecast 2020/21 £**	**Forecast 2021/22 £**	**Forecast 2022/23 £**
Dealings with members, employers and others directly involved in the scheme:				
Contributions receivable & transfers in from other pension funds	(255,821,120)	(302,703,900)	(313,150,410)	(324,147,290)
Benefits payable and payments to or on account of leavers	342,618,290	332,368,930	349,491,090	365,962,070
Net withdrawals from dealings with members	**86,797,170**	**29,665,030**	**36,340,680**	**41,814,780**
Management expenses	50,769,020	65,388,510	67,587,450	74,122,500
Net returns on investments	(483,604,750)	(455,279,670)	(478,923,530)	(506,307,500)
Net increase in the Fund during the year	**(346,038,560)**	**(360,226,130)**	**(374,995,400)**	**(390,370,220)**
Net Assets of the Fund At 1 April	(8,439,964,660)	(8,786,003,220)	(9,146,229,350)	(9,521,224,750)
Net Assets of the Fund At 31 March	**(8,786,003,220)**	**(9,146,229,350)**	**(9,521,224,750)**	**(9,911,594,970)**

4.3.2 In the first year of the forecast, investment costs (including those within the operational budget) are at 52 bps, which is within the limit of the CEM benchmark as set out elsewhere in this strategy, and are expected to rise up to 69 bps by 2022/23. As the CEM benchmark is only available annually in arrears forward looking forecasts are not available.

4.3.3 The forecast for the Pension Fund is much more susceptible to forecast error than that for the operational budget. In particular, while there is some consistency in terms of data from previous years the Authority cannot control the numbers of members retiring in any year or the decisions which they make in relation to commutation of pension to lump sum. Similarly, the numbers of deaths amongst the membership of the Fund and the numbers of members transferring either into or out of the Fund are changeable and outside the control of the Authority. While the forecasts are based on the best information available using both actuarial results and historic information as adjusted for known one off events and inflation where appropriate, there is a significant amount of variability from year to year which it is extremely difficult to forecast.

4.3.4 The important message in the above forecast is the anticipated net withdrawal from the Fund in each year for dealings with members, this results in a significant increase in the requirement for the harvesting of investment income (at least £20m pa). This will have an impact on the review of the Investment Strategy probably resulting in a prioritisation of investment in assets which generate a consistent long term income stream.

4.3.5 The key risks and uncertainties in the Fund Forecast include the following:

- Financial market volatility, which will impact on both the asset value of the Fund and on the level of investment income and large swings in asset value will result in significant variation from the forecast. This is a constant risk for pension funds and while steps have been taken both through the broad asset allocation and through equity protection to reduce the potential volatility in the Fund the risk of events which might cause significant market dislocation remains and, if anything, is at the current time heightened as a result of tensions around international trade and Brexit.

- A further significant wave of service reductions across major employers resulting in workforce reductions which have the effect of reducing the number of active members contributing and further increase the imbalance between contributions received and benefits paid. Other than changes in the Strategic Asset Allocation to focus on income generation and delivering investment returns above actuarial assumptions to build resilience into the Fund there are limited options available to the Fund in this area, although structuring contribution cash flows may provide some further assistance in dealing with the issue. Political and fiscal uncertainty heightens this risk.
- Failure of pooling to contain investment costs. While SYPA is not expecting to make any significant savings as a result of pooling, in the short to medium term the expectation is that the process of pooling will contain costs. However, should the Pool fail to achieve its objectives in this area there will be an impact on net of fees returns. To date, the evidence is that in this respect Border to Coast are delivering in line with their plan, and should the initial moves of partner funds into the range of internally managed funds continue or increase, there may well be the opportunity for costs in relation to listed assets to reduce towards the pre-pooling levels. If the Pool were to fail to deliver cost savings as anticipated, then further mitigation will come through the collective action of the 12 partner funds to address any underperformance.

4.3.6 This forward forecast indicates a challenging position when viewed in the context of market conditions and uncertainty as at the time of writing. All economic forecasts indicate that we are moving into a somewhat lower return environment which is reflected in the actuarial assumptions used in producing the forecast. This results in the need for the Fund and the Pool to focus on securing good assets and sustained income streams within its revised strategic asset allocation.

5. Policy on reserves

4.4 Reserves

4.4.1 Reserves are funds that are set aside for two main reasons:

- A 'just in case' risk materialises that requires additional resources; or
- To save up for a particular project.

4.4.2 All of SYPA's costs are met by the Pension Fund therefore, unlike a local authority, the first contingency argument for holding reserves does not hold as costs incurred, for example, as a result of a building fire, would simply fall to the Pension Fund which is about 1,000 times the size of the Authority's budget and such costs are therefore unlikely to be material.

4.4.3 The argument for holding reserves to save up for things does, though hold. In order to save up in this way managers will have had to underspend their budgets and thus the ability to use money thus saved acts as an incentive to manage within the available resources.

4.4.4 However, there is a balance to be struck as reserves could be allowed to accumulate to a level where they became significant in the context of the Authority's budget at which point they would in effect be depriving the Fund of cash to invest. Consequently some limitation on the level of reserves is necessary to maintain this balance. The Authority therefore have the following policy in relation to reserves:

"The Authority will maintain its operational revenue reserves at a level equivalent to no more than 7.5% of its operational budget, the establishment of new reserves will be approved by the Authority on the recommendation of the Treasurer, and the level of reserves will be reviewed by the Treasurer each year as part of his report on the final accounts of the Authority."

4.4.5 During 2018/19 and in the current 2019/20 financial year, there have been significant underspends against the budget and these have created an opportunity to set aside these unused funds specifically for use towards financing of some major capital projects that need to be resourced in the medium term period. These projects include:

- The acquisition of new and integrated software systems for Finance, HR and Staff Payroll;
- Re-procurement of Pensions Administration System - 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; and
- Initial scoping of options for long term accommodation which will require external specialist support.

4.4.6 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, which would have to be repaid to the Fund over an appropriate timescale. Therefore, Members have been asked to agree a proposal for a new 'Capital Projects' reserve to be created from the 2019/20 underspend and for some of the existing Corporate Strategy reserve to be transferred here as well.

4.4.7 If the proposals are approved by the Authority, the forecast level of reserves are as shown in the following table.

South Yorkshire Pensions Authority Earmarked Reserves	**Forecast Balance at 31 March 2020 £**	**Forecast Balance at 31 March 2021 £**	**Forecast Balance at 31 March 2022 £**	**Forecast Balance at 31 March 2023 £**
Operational Revenue Reserves:				
Corporate Strategy Reserve	232,831	232,831	232,831	232,831
ICT Development Reserve	113,633	117,633	121,638	125,643
Subtotal - Revenue Reserves	**346,464**	**350,464**	**354,469**	**358,474**
Revenue Reserves as % of Budget	*6.36%*	*6.44%*	*6.50%*	*6.49%*
Capital Projects Reserve	660,000	702,600	710,600	710,600
Total Reserves	**1,006,464**	**1,053,064**	**1,065,069**	**1,069,074**

4.4.8 The above forecast does not include any forecast drawdown of these reserves at this stage and so the figures shown represent the maximum expected balances. The reserves will be drawn upon during the period but we do not currently have enough information to estimate the amounts and timing of these. This will be kept under review and reported to the Authority for approval based on a recommendation from the Treasurer as required through the quarterly reporting of management accounts and financial forecasts.

Subject	Pensions Authority Budget 2020/21	Status	For Publication
Report to	Authority	Date	23 January 2020
Report of	Treasurer		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Gillian Taberner Head of Finance & Corporate Services	Phone	01226 772850
E Mail	gtaberner@sypa.org.uk		

1 Purpose of the Report

1.1 To present the Authority budget proposals for 2020/21 for approval.

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2 Recommendations

2.1 Members are recommended to:

a. Approve the 2020/21 budget for the Authority, a total of £5,445,600

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3 Link to Corporate Objectives

3.1 This report sets out the budget for 2020/21 and the proposals are prepared on the basis of providing sufficient resources to support the delivery of all the corporate objectives set out below.

3.2 The budget preparation and approval process itself links to the 'Effective and Transparent Governance' objective by ensuring that the financial plans are transparent, are subject to proper scrutiny and oversight, and that the Authority is accountable for its use of resources.

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes.

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

Valuing and engaging our Employees

To ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

4 Implications for the Corporate Risk Register

4.1 The budget proposals outlined in this report have been prepared with the aim of ensuring that the Authority will have sufficient resources to meet its obligations and to support the risk mitigation actions being taken as set out in the Corporate Risk Register.

5 Background and Options

5.1 The preparation of the Authority's operating budget proposals for 2020/21 has involved a full review of the base budget following the significant amount of change that has affected the organisational context over the last two years and the impact of this on the Authority's resource needs and priorities going forward.

5.2 The overall aim of the budget process is to ensure that the organisation's financial resources and allocations are determined on the basis of supporting the achievement of the corporate aims and objectives set out in the Authority's Corporate Strategy. Therefore the proposals set out in this report have been shaped by the overall context and strategic direction of the organisation and some of these key factors are set out in more detail below.

Internal Operating Environment

5.3 During the last eighteen months, as work has taken place to strengthen the overall governance of the organisation, it has become clear that the Authority faces a range of issues that will need to be addressed in order to move forward and realise its full potential. These issues include the following:

a. Employee learning and development – there is a need to invest further in developing individuals, in relation to management skills and practice in particular as well as a wider range of softer skills;
b. Corporate governance – as some of the links between the former joint secretariat and the Authority have loosened, this has resulted in a gap in relation to some elements of corporate management processes, e.g. the regular review and updating of core organisational policies. So far this has been addressed by the Fund Director carrying out the reviews needed but this is not a sustainable or cost-

effective use of resource. In addition, there is a need to ensure that appropriate levels of resource are provided to support the democratic process, in particular the on-going development of suitable programmes of training for Members and the provision of independent advice as needed;

c. Back office – There is a need for upgrade and modernisation of systems to support the back office functions of finance, HR and staff payroll. As we continue to move forward with transition of assets to Border to Coast, there is also a need for a fundamental review of the operating model for the back office;

d. Communications and engagement – as part of ensuring a continuing focus on the needs of our customers, we need to ensure that suitable processes, tools and technology are in place to enable a greater understanding of the quality and quantity of customer interactions, and to ensure we communicate effectively with all our stakeholders. Improvements have already started as part of the restructure of the Pensions Administration service but it is likely that further investment will be needed over time;

e. Pensions Administration System – the current contract for "UPM", the software system used for Pensions Administration, is due to come to an end in the summer of 2021 and this will require a major procurement exercise. Depending on the outcome of that procurement, there will be resourcing requirements relating to either the renewal or replacement of the system; and

f. Office accommodation – The Authority will need to take a view on its approach and requirements for accommodation in advance of November 2021 when the break option in the current lease agreement may be exercised; this will require a full options appraisal supported by external specialist advice.

External Environment

5.4 The Authority does not operate in a vacuum of course and there are wider, external factors that will also influence our direction and resourcing needs. These include the following:

a. Public Sector Pension Reform – We know that changes will be made to the Scheme following the McCloud case but as yet we do not know what these will be; the implementation of a remedy in relation to McCloud will require substantial work and potentially significant systems changes may be needed as a result of any changes made to reduce the costs of the Scheme;

b. The Scheme Advisory Board's Good Governance Review – the impact of the recommendations coming out of this review will result in the need for increased requirements for the maintenance of a much better documented and systematic governance process, the undertaking of regular independent reviews of governance, and learning and development for elected members;

c. In a similar way to the Good Governance Review, the FRC's new Stewardship Code will require changes to the way in which the Authority carries out certain aspects of its functions and there are likely to be resource implications although these are not yet known;

d. Regulation and Audit – Increasing focus from regulators on compliance with relevant codes will mean we need to document and demonstrate compliance more effectively and the review of the Code of Audit Practice and various regulatory changes in the audit profession more generally may result in additional audit requirements;

e. Transparency – There is a wider agenda for public services in terms of transparency and the move to 'digital by default' and the Authority will need to reflect this in its own plans; and

f. Societal Change – The impact of wider societal and demographic changes on the operations of the Authority to which we will need to respond, e.g. the implications of increasing numbers of people living with dementia for the training needs of our staff in order to provide services that meet their needs.

Financial Context

5.5 The running costs of the Authority are met from the Pension Fund in accordance with regulations and do not therefore fall on Council Tax nor is the Authority reliant upon Government grant funding. As such, the Authority is less exposed to the wider constraints on the public sector financial environment than our colleagues in the major employing organisations within the Pension Fund. There is, however, an imperative to manage the resources for which we are responsible in such a way that our expenditure does not negatively impact on the overall performance of the Pension Fund.

5.6 Members will recall that the context in which the budget for 2019/20 was prepared was on the basis of 'continuation of service' and there remained uncertainty in respect of some of the effects on the cost base arising from the transition to Pooling. Since that budget was set and during the course of the 2019/20 year to date, there have been several changes and developments within the organisation and these have resulted in lower costs than anticipated in some areas.

5.7 Further details of variances compared to budget and the reasons for these are contained in the Corporate Performance report for Quarter 2 elsewhere on the agenda. The overall picture is that there is currently a large forecast underspend for 2019/20 that partly reflects the fact that this has been a continuing period of transition during which some of the costs relating to the previous operating model have declined in advance of the organisation incurring the full range of additional costs associated with the planned implementation of new structures, activities, systems, and so on, in line with the corporate planning framework. For example, the largest variance is in relation to staffing costs, arising from a number of factors including changes within the pensions administration service and a number of management and senior posts within the service being held vacant for the first three quarters of the year pending the restructure being implemented from December 2019.

5.8 This position and the background to the budget setting cycle has created the need to undertake a comprehensive and detailed review of the base budget whilst also providing the opportunity for this review to encompass a re-alignment of existing financial resources as a way of fulfilling the majority of the additional investment needed to support the Authority's corporate priorities and thereby minimising any requirement for growth in the overall quantum of resource to be requested.

5.9 It is essential that this re-alignment of the existing budget is set out in a transparent manner that enables Members to take a fully informed view of the changes being proposed and to make the approval decision with clear oversight of how resources will be re-directed to fund the additional investment needed in specific areas and activities, particularly where this involves the employment of additional staff resource.

5.10 Therefore, in the tables that follow, the proposals include detail of the 'savings' identified as well as the estimated 'growth' required, supported by a further analysis of the specific items on which this will be used.

Budget 2020/21

5.11 The following tables show the proposed budget for 2020/21 and the movement on this when compared to the current budget for the 2019/20 year.

Table 1: South Yorkshire Pensions Authority – Operating Budget 2020/21

South Yorkshire Pensions Authority Operational Budget	2019/20 Budget £	Reallocate Resources £	Inflation £	Savings/ Income Growth £	Growth £	2020/21 Budget £	Total Budget Movement £	Total Budget Movement %
Investment Strategy	784,900	0	6,350	(29,550)	10,000	**771,700**	(13,200)	(1.68%)
Pensions Administration	3,131,750	(110,885)	48,360	(336,065)	81,360	**2,814,520**	(317,230)	(10.13%)
Finance & Corporate Services	530,500	110,885	11,250	(78,980)	48,200	**621,855**	91,355	17.22%
ICT	532,950	0	6,799	(64,409)	149,465	**624,805**	91,855	17.24%
Management & Corporate Costs	382,650	0	5,270	(84,135)	126,850	**430,635**	47,985	12.54%
Democratic Representation	82,850	0	925	(4,290)	56,000	**135,485**	52,635	63.53%
Subtotal before transfers to reserves	**5,445,600**	**0**	**78,954**	**(597,429)**	**471,875**	**5,399,000**	**(46,600)**	**(0.86%)**
Appropriations to/ (from) Reserves	0	0	0	0	46,600	**46,600**	46,600	100.00%
Total Charge to the Pension Fund	**5,445,600**	**0**	**78,954**	**(597,429)**	**518,475**	**5,445,600**	**0**	**0.00%**

Total Charge to the Pension Fund comprises:	**2020/21 Budget £**
Administration Expenses	3,375,340
Investment Management Expenses	610,590
Oversight & Governance Expenses	1,459,670
	5,445,600

Table 2: South Yorkshire Pensions Authority – Operating Budget 2020/21: Analysed by Subjective

South Yorkshire Pensions Authority Operational Budget Subjective Analysis	2019/20 Budget £	Reallocate Resources £	Inflation £	Savings/ Income Growth £	Growth £	2020/21 Budget £	Total Budget Movement £	Total Budget Movement %
Employees	3,830,300	(21,130)	66,669	(500,759)	175,910	3,550,990	(279,310)	(7.29%)
Running Costs	1,721,300	21,340	12,285	(87,880)	295,965	1,963,010	241,710	14.04%
Income	(106,000)	(210)	0	(8,790)	0	(115,000)	(9,000)	8.49%
Subtotal before transfers to reserves	**5,445,600**	**0**	**78,954**	**(597,429)**	**471,875**	**5,399,000**	**(46,600)**	**(0.86%)**
Appropriations to/ (from) Reserves	0	0	0	0	46,600	46,600	46,600	100.00%
Total Charge to the Pension Fund	**5,445,600**	**0**	**78,954**	**(597,429)**	**518,475**	**5,445,600**	**0**	**0.00%**

5.12 The overall budget requirement is for a total of £5,445,600 representing a freeze in cash terms on the 2019/20 budget.

5.13 The columns in Table 1 show the movement from the 2019/20 budget to the proposed 2020/21 budget analysed between the reallocation of resources, the impact of inflation, the savings identified and the growth required, as explained below.

Re-Allocation of Resources

5.14 This column sets out the reallocation of budgets between individual spending heads to reflect real expenditure patterns.

5.15 The movement of resources that is shown from Pensions Administration to Finance and Corporate Services relates to the budget for the Payroll and HR functions that have been transferred in the new organisational structure with effect from 1 January 2020.

Inflation

5.16 This column shows the impact of any inflationary awards on staff pay and the impact of maintaining the real value of certain budgets where prices are contractually linked to inflation.

5.17 The majority of the inflation cost shown in the table above, £67,000, relates to the assumption that has been used for budgeting purposes of the cost of a 2% pay award for all staff. This assumption matches the assumption used by the District Councils in calculating their budgets and reflects a consensus view amongst Treasurers. Clearly there is a risk, given the initial negotiating position stated by the Trade Unions, that this assumption will be too low. However, it is based on the best information available at this time.

5.18 The remaining amount relates to certain contractual costs that are expected to increase in line with the CPI rate as at September 2019, which was 1.7%.

Savings/Income Growth

5.19 This column shows the removal of resources not required to maintain current service levels, as well as any growth in the income resources available to the Authority.

5.20 The savings shown have been identified from a detailed review of budgets and these reflect changes made to remove resourcing that is no longer required – with the aim of re-directing this to invest in new and enhanced provision as shown in the ‘Growth’ section below.

5.21 A total saving of (£248,600) has arisen on staffing costs in relation to pension contributions as a result of the improved funding basis of the Authority’s position from the 2019 Valuation which means that instead of paying a past service deficit contribution of £206,900, we will now net off a surplus of (£41,700). There were also further savings in staffing costs arising from a realignment to actual rates for employer on-costs.

5.22 Savings have also been identified from a review of the actual resources now required for various areas including office accommodation, support services SLA, external audit fees, postage and printing – reflecting how the needs of the organisation have changed over the last couple of years and resetting the relevant budgets accordingly.

Growth

5.23 This column sets out the budget impact of additional enhancements to services proposed in line with the Corporate Strategy.

5.24 The following table provides a breakdown of the total of the budget growth shown above, providing the detail of where additional resourcing is proposed to be used and how this supports the wider corporate plans of the Authority.

Budget Head	Budget Growth Items	Detail	Total £
Investment Strategy	Bloomberg Licence	Additional licensing cost to enable access for all staff in the Investment Strategy team to this resource for analysis of investments and performance.	10,000
Investment Strategy Subtotal			**10,000**
Pensions Administration	Apprenticeship Programme	Formally establish an apprenticeship programme for up to three apprentices, previously funded through turnover savings. This is a specific response to workforce planning issues identified in the risk register.	26,000
Pensions Administration	Communication	Re-evaluate existing officer role to reflect increased specialism required and add a new assistant post to support increased effort in terms of scheme member communications, to enable the development of internal communications, and to improve the approach to press and media whilst keeping this low-key.	33,000
Pensions Administration	Benchmarking	To provide funding for the cost of CEM Benchmarking for Pensions Administration having taken part in this for the first time in 2019/20; 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.	14,360
Pensions Administration	Address Tracing	To provide recurrent funding for the newly implemented address-tracing service in order to meet the expectation of the Pensions Regulator that we take actions to trace missing scheme members.	8,000
Pensions Administration Subtotal			**81,360**
Finance and Corporate Services	Governance, Risk and Compliance	Create a new Governance, Risk & Compliance Officer post in order to address an identified resource gap in this area.	42,500
Finance and Corporate Services	Corporate Subscriptions	Additional costs relating to subscription to CIPFA's Pensions Network and Digital Publications services - providing technical resource, advice, guidance and training.	5,700
Finance and Corporate Services Subtotal			**48,200**
ICT	Project Management	Creation of a new Project & Improvement Lead post in the ICT team to provide specialist resource to support various improvement projects across the organisation as part of the corporate strategy.	47,660

Budget Head	Budget Growth Items	Detail	Total £
ICT	ICT Infrastructure	Potential additional investment required for upgrading MS Office software, telephony and back-up solutions to ensure continuing suitability and security.	75,955
ICT	ICT Hardware	Additional investment for ICT hardware replacement rolling programme - with a new emphasis on enabling agile working.	25,850
ICT Subtotal			**149,465**
Management & Corporate Costs	Management Support	A new Management Support Officer post to provide administrative support to the Senior Management Team.	26,850
Management & Corporate Costs	Mandatory Training	Development of a bespoke Induction training package for new staff as well as development of mandatory annual training programmes for all staff through tailored e-learning in areas such as Data Protection, Counter Fraud, Health and Safety, etc.	20,000
Management & Corporate Costs	Professional Training	Increase in base provision in order to meet the increasing need for staff's professional knowledge and skills to be kept up to date. Improved record-keeping to support the monitoring of the use and efficacy of this resource.	50,000
Management & Corporate Costs	Management Development	Further investment in management development to build on the initial programme undertaken during 2019/20 and also to develop the next generation as part of succession planning.	20,000
Management & Corporate Costs	Health and Wellbeing Initiatives	To provide a dedicated Health, Safety and Wellbeing budget for the first time to support and build on the actions already being taken including workstation assessments, weekly fruit deliveries, flu vaccinations, resilience training etc.	10,000
Management & Corporate Costs Subtotal			**126,850**
Democratic Representation	Members Allowances	Estimated additional resource to fund the reimbursement of the cost of Members' Allowances to the district councils as part of the introduction of a new common scheme.	56,000
Democratic Representation Subtotal			**56,000**
Grand Total			**471,875**

5.25 The proposed transfer of £46,600 to earmarked reserves comprises £4,000 of ICT income from the sale of software developed in-house to be transferred to the ICT Development reserve and £42,600 to be taken from the overall savings identified and transferred into a Capital Projects Reserve, subject to the creation of this new reserve being approved by the Authority as requested in the Quarter 2 Corporate Performance report.

Workforce and Pay Policy

5.26 The proposals set out in this report have the following impacts on the Authority's workforce.

	2019-20 Funded Establishment FTE	Miscellaneous Changes FTE	Growth FTE	2020-21 Funded Establishment FTE
Investment Strategy	4.4	0.0	0.0	4.4
Pensions Administration	68.0	(6.6)	1.0	62.4
Finance and Corporate Services	10.1	2.7	1.0	13.8
ICT	7.8	(1.0)	1.0	7.8
Management and Corporate Costs	0.0	0.0	1.0	1.0
Democratic Representation	0.0	0.0	0.0	0.0
Apprentices	1.0	0.0	2.0	3.0
Total	**91.3**	**(4.9)**	**6.0**	**92.4**

5.27 The Miscellaneous Changes column represents a combination of changes to hours, transfers of posts between sections, and changes as a result of small scale reorganisations on posts becoming vacant.

5.28 The Growth column shows the number of new posts proposed in line with the details set out in the table in paragraph 5.26 above – these are Apprenticeships, Communications Assistant, Governance, Risk & Compliance Officer, ICT Project & Improvement Lead and Management Support Officer.

5.29 The Authority does not budget for an assumed level of vacancies and the intention is, generally, to operate at full establishment throughout the year. The process of filling new posts approved as part of the budget will begin in the current financial year in order to have people in post at the earliest possible opportunity.

5.30 The Authority has previously identified a number of workforce related risks within the corporate risk register. The restructure within Pensions Administration together with the additional posts identified as growth and the very significant investment proposed in learning and development and apprentices, which will support a strengthening in succession planning, will substantially address these risks.

5.31 The Authority produces a Pay Policy Statement which sets out its arrangements for pay and reward. As the national pay award applicable from April 2020 has yet to be settled, it is not yet possible to update this. The pay policy statement will be updated as and when the relevant information is available.

Reserves

5.32 The movement and estimated balances on the Authority's earmarked reserves arising from the budget proposals are as follows.

Reserve	Forecast Balance at 01/04/2020 £	Estimated Contributions to Reserves £	Estimated Contributions from Reserves £	Estimated Balance at 31/03/2021 £
Corporate Strategy Reserve	232,831	0	0	232,831
ICT Reserve	113,633	4,000	0	117,633
Subtotal Revenue Reserves	**346,464**	**4,000**	**0**	**350,464**
Capital Projects Reserve	660,000	42,600	0	702,600
Total Earmarked Reserves	**1,006,464**	**46,600**	**0**	**1,053,064**

5.33 The 'Capital Projects Reserve' will be created in 2019/20 if approved by the Authority and, as set out in the Quarter 2 Corporate Performance report, will be used for the provision of resources to support non-recurrent costs on major projects that will be required over the period of the medium term financial strategy:

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.

5.34 At this stage, it is not proposed to budget for any transfers from the earmarked reserves in 2020/21 because the timing of when the draw down from these reserves will be required is not yet known. This will be kept under review and reported to the Authority for approval as required via the quarterly reporting of the management accounts and financial forecasts during the year.

Local Pension Board

5.35 Included within the Democratic Representation budget shown above is the draft budget for the Local Pension Board, a total of £14,000. This was considered at their meeting on 11 December 2019 and the Board have recommended this to the Authority for approval as part of the overall Authority budget.

Report Under Section 25 of the Local Government Act 2003

5.36 Part 2 of the Local Government Act 2003 contains a series of duties and powers that give statutory support to aspects of good financial management within local government.

5.37 Section 25 requires the statutory chief finance officer to report to an Authority on the robustness of the estimates included in the budget and the adequacy of the proposed reserves when it is making its decision on determining the council tax. Whilst the Pensions Authority budget does not have any direct impact on council tax, it is nevertheless good practice to apply the same requirement here.

5.38 In considering the robustness of any estimates, the following issues are taken into account:

a. The reasonableness of the underlying budget assumptions;

b. The extent to which known costs and pressures have been recognised in the proposed budget;

c. A review of risks associated with the budget;

d. The alignment of resources with the Authority's service and organisational priorities; and

e. The strength of financial management and reporting arrangements.

5.39 In preparing the budget for 2020/21, a detailed, line-by-line review of the cost base was undertaken to ensure that budgeted resources going forward are determined and allocated to reflect the actual needs of the organisation.

5.40 Employee costs make up two thirds of the overall budget. The budget estimates for employee costs have been calculated based on the newly implemented structure for pensions administration and include additional staffing resources as set out in paragraph 5.26 above. The Authority has budgeted on the basis of all posts being fully funded for the year; this has the advantage of allowing posts to be advertised during the notice period of any employee and replacements to come into post quickly. It also provides flexibility should temporary or agency staff be required to fill posts in the short term.

5.41 A vacancy allowance has not been made for any time-lag in filling vacancies; there is therefore a risk that new posts will not be filled as quickly as planned which would result in an under-spend on the budget.

5.42 In line with the four District Councils and as outlined in para 5.17 above, an assumption of 2% has been set for pay award inflation. The actual pay award is not yet known and will be determined by the National Joint Council for Local Government Services. The assumption for the budget is considered to be appropriate based on the best information available at this time but there is a risk that the actual pay award will be higher.

5.43 The estimates for running costs include uplifts for contractual inflation increases where relevant based on the terms of individual contracts – in many cases this is at the September CPI rate of 1.7%.

5.44 The budget growth estimates have been developed specifically to align with the Authority's corporate strategy and priorities, including additional investment in governance, risk and compliance, learning and development and ICT infrastructure.

5.45 The budget is monitored regularly throughout the year and forecast outturn and variances reported to the Authority every quarter.

5.46 The Treasurer therefore considers that the estimates included in the budget are robust.

5.47 The reserves held by the Authority are required to fund specific expenditure in future years or are required to provide risk finance. The proposed reserves set out in paragraph 5.32 above are considered to be adequate for the purposes outlined and to meet needs arising from any unforeseen events during the year.

Conclusion

5.48 The budget proposals outlined in this report are based on the results of a thorough re-assessment of resource needs in the context of the Authority's current and future requirements. The areas suggested for additional investment have been carefully identified to link to and support the achievement of the Corporate Strategy objectives.

6 <u>Implications</u>

6.1 The proposals outlined in this report have the following implications:

Financial	As set out in the body of the report.
Human Resources	The budget includes an assumption of a pay award of 2%; the actual pay award will be determined by the National Joint Council for Local Government Services. The budget proposals include the addition of staff resources in certain areas as set out in the table at paragraph 5.24 and as detailed in paragraph 5.26.
ICT	The budget proposals include specific resources for the development of the ICT infrastructure and systems available as set out in the main body of the report.
Legal	The setting and monitoring of the budget requirement ensures that the Authority complies with the Local Government Act 2003.
Procurement	The budget proposals include resources to support any procurement activity that will need to be undertaken.

Neil Copley

Treasurer

Background Papers	
Document	**Place of Inspection**
Budget working papers	Floor 8 Gateway Plaza, Sackville Street, Barnsley

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Subject	Levy 2020/21	Status	For Publication
Report to	Authority	Date	23 January 2020
Report of	Treasurer and Fund Director		
Equality Impact Assessment	Not Required	Attached	N/a
Contact Officer	Gillian Taberner Head of Finance & Corporate Services	Phone	01226 772850
E Mail	gtaberner@sypa.org.uk		

1 Purpose of the Report

1.1 To approve the Levy for 2020/21 under the Levying Bodies (General) Regulations 1992.

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2 Recommendations

2.1 Members are recommended to:

a. **Approve a total levy of £415,000 for 2020/21 in accordance with The Levying Bodies (General) Regulations 1992, to be allocated to the District Councils in proportion to their approved council tax base amounts for 2020/21.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

The approval of the Levy ensures the Authority demonstrates transparency and complies with regulations in the recovery of costs associated with the former South Yorkshire County Council and South Yorkshire Residuary Body.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report have no direct implications for the Corporate Risk Register.

5 Background and Options

5.1 Responsibility for early retirement compensation payments awarded by the former South Yorkshire County Council and South Yorkshire Residuary Body passed to the Pensions Authority when it was created in 1988. The statutory instrument under which the Authority was created (*The Local Government Reorganisation (Pensions etc.) (South Yorkshire) Order 1987*) made provision for the four District Councils to reimburse the Pensions Authority for the cost of those payments on a proportional basis according to the size of their population. The Levy is the mechanism by which that reimbursement is achieved.

5.2 The Levy is calculated in November each year based on an estimate of the costs of these payments in the following financial year. The total Levy amount is allocated to each district in proportion to their council tax base for the year.

5.3 Then at the end of each financial year, the actual costs for that year are confirmed and any difference to the amounts paid on account by the four districts is refunded or invoiced as required.

5.4 The 2020/21 Levy has been calculated as £415,000; a reduction of £21,000 compared to the 2019/20 Levy.

2019/20 Levy	£436,000
2019/20 Forecast Actual Cost	£422,000
Forecast Refund Due to Districts for 2019/20	£14,000
2020/21 Levy	**£415,000**

5.5 The estimated apportionment of the 2020/21 Levy, based on 2019/20 Council Tax Base shares, is shown in the table below. Please note the actual apportionment will be re-calculated to reflect the approved 2020/21 Council Tax Base figures for each district as soon as this information is available.

	2020/21 Levy Estimates	**Proportion**
Barnsley MBC	£74,727	18.01%
Doncaster MBC	£96,526	23.26%
Rotherham MBC	£81,955	19.75%
Sheffield City Council	£161,792	38.99%
Total	**£415,000**	**100.00%**

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	The issuing of the levy to the four districts enables the Authority to recover costs relating to the former SYCC/ Residuary Body.
Human Resources	None
ICT	None

Legal	The Levy approval as outlined in this report ensures that the Authority complies with The Levying Bodies (General) Regulations 1992
Procurement	None

Neil Copley **George Graham**

Treasurer **Fund Director**

Background Papers	
Document	**Place of Inspection**
None	

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SOUTH YORKSHIRE
PENSIONS AUTHORITY

QUARTERLY REPORT TO 30 SEPTEMBER 2019

Market background

Global stock markets remained relatively flat this quarter, with the same risks still dominating the investment markets as they did previously. Worldwide growth continues to slow down due to weakening cyclical momentum and softer industrial activity, uncertainties around global trade and geo-political conditions, such as US/China trade tariffs and Brexit. The best performing sectors during the quarter have been the defensive areas in consumer staples, utilities and real estate with global sovereign debt also making strong gains supporting this view. Gold, a proxy for safety, rose 18.5% on the quarter.

Most of the news in the UK has been dominated by Brexit with the new PM, Boris Johnson, assuming office on 24 July. In his first speech to Parliament, the PM underlined that the UK will leave the EU on 31 October 2019 with or without a deal, as mandated by the majority of the British electorate in 2016.

The PM's tenureship has been marred by controversy from removing 17 prominent senior ministers from their roles in the Government, to proroguing Parliament, a decision that was later upheld by the Supreme Court as unlawful. With his proposals fast losing support in both Parliament and in the EU together with time running out, the probability of the UK now leaving on 31 October looks very unlikely, with the possibility of an extension into next year more certain with the Benn-Burt Act taking precedence.

For investors this means more uncertainty, as the country is locked from moving forward. Growth has fallen to -0.2% on a quarter on quarter basis, as companies are running down stock-piles that they had built up in the first quarter of 2019 in the run up to the original 29 March Brexit deadline date. During this period, the sterling/dollar exchange rate ranged from a high of $1.2696 to a low of $1.2033, finally ending the quarter end at $1.2289.

In spite of the doubt surrounding Brexit, employment is high with real wage growth increasing steadily and services output up by 0.1%. Manufacturing output, however, fell by 2.3% as did UK productivity with inflation also declining to 1.7% this quarter, below market expectation due toa slowdown in a cost of transport and a fall in clothing and footwear prices. There was a small increase in retail sales. With this in mind the BOE voted unanimously to hold the base rate at 0.75% with a pledge to a gradual and limited rate rise under the assumption of a smooth Brexit transition and global growth recovery.

Mixed economic signals have been emanating out of the US too, with a solid service and household activity, low unemployment and easy financing conditions but a slow declining trend in industrial activity. This has stemmed from the trade tariffs and subdued inflation data amid heightened concerns about the economic outlook and this still dictates the future monetary policy. Since the last quarter the Fed has lowered rates by a further 50bps to 2%. With US elections set to be in full swing in 2020, the current administration would like to resolve the geo-political issues that are prevalent with a positive momentum as further Fed rate cuts are expected before the year end.

Market background continued

In Europe the slow-down in industrial activity has really impacted the economic growth of the major economies on the continent, notably Germany, with exports and services falling by 1.3% in the quarter (vs 1.8% increase in Q1). However, similar to that seen in the UK and US, unemployment in the Euro-Zone has declined with easy credit conditions and a buoyant housing market being the positive note within the region.

With worries around slowing growth, low inflation, negative economic data and sentiment, the European policy makers are looking to loosen fiscal policy with the aim of improving the overall demand and consumer confidence within the region.

The recent political instability in Italy has now temporarily come to an end with a coalition administration taking charge of the government with Italian BTP bond yields dropping on the expectation of a resolution taking place.

Trade tensions and political unrest in Hong Kong, seems to have had a negative impact on China and its economy, although the latest data coming out of the country shows that the nation grew by 6.2% on a year on year basis; however, this was a fall of 0.2% from the previous quarter, indicating signs of slowness in the region. Total exports growth dropped 0.4% on a year on year basis and domestic demand fell marginally in retail and motor vehicle sales growth from the previous month, with the authorities still engaged in support of the country via fiscal and monetary stimulus as the renminbi is currently trading just off the all-time highs of 7.1789.

The UK property sector offers attractive returns on a relative basis with average yields of around 4.7%%,(seems too high to me)compared to the 10 year Gilts at just under 1%. The key drivers that existed in the previous quarter still currently prevail with investment within the industrial property sector and health care growing while sharp declines in the retail sector continue. E-commerce and logistics sub-sectors offer better opportunities along-side long lease contracts and desirable locations.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Fund Valuation
as at 30 September 2019

	Jun-19		Quarterly Net	Sep-19		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Royal London	411.1	4.7	3.9	428.6	4.8	5	
UK ILGs	1062.4	12.2	-23.7	1140.2	12.8	12	
High Yield Bonds	221.6	2.6	-7.1	216.5	2.4	3	
EM Bonds	233.9	2.7	4.8	238.1	2.7	3	
TOTAL	**1929.0**	**22.2**	**-22.1**	**2023.4**	**22.7**	**23**	**18-28**
UK EQUITIES	**1283.3**	**14.8**	**0.0**	**1298.0**	**14.6**	**15**	**10 _ 20**
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2407.3	27.7	0.0	2473.8	27.8	27.125	
Developed Market - SYPA	141.4	1.6	-29.5	115.2	1.3		
Emerging Market - BCPP	690.9	7.9	0.0	681.0	7.6	7.875	
Emerging Market - SYPA	21.0	0.3	-1.8	18.0	0.2		
TOTAL	**3260.6**	**37.5**	**-31.3**	**3288.0**	**36.9**	**35**	**30-40**
PRIVATE EQUITY							
BCPP	3.1		7.6	7.6			
SYPA	555.4		21.4	613.3			
TOTAL	**558.5**	**6.4**	**29.0**	**620.1**	**7.0**	**7**	**2-12**
PRIVATE DEBT FUNDS	**336.6**	**3.9**	**15.7**	**359.1**	**4.0**	**3.5**	**0-8.5**
INFRASTRUCTURE							
BCPP			1.9	1.9			
SYPA			12.7	366.3			
TOTAL	**338.1**	**3.9**	**14.6**	**368.2**	**4.1**	**5**	**0-10**
PROPERTY	**757.2**	**8.7**	**12.5**	**768.3**	**8.6**	**10**	**7-13**
CASH	**281.2**	**3.2**		**256.4**	**2.9**	**1.5**	**0-10**
EQUITY PROTECTION (EPO)	-50.1	-0.6		-68.5	-0.8		
TOTAL FUND	**8694.4**	**100.0**		**8913.8**	**100.0**	**100**	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	1203.6			**1323.8**			

Asset Allocation Summary

The most significant transactions this quarter were the £23m raised from the index-linked gilt portfolio and the £31m raised from the residual overseas portfolios to fund the £59m net investment across the alternative portfolios.

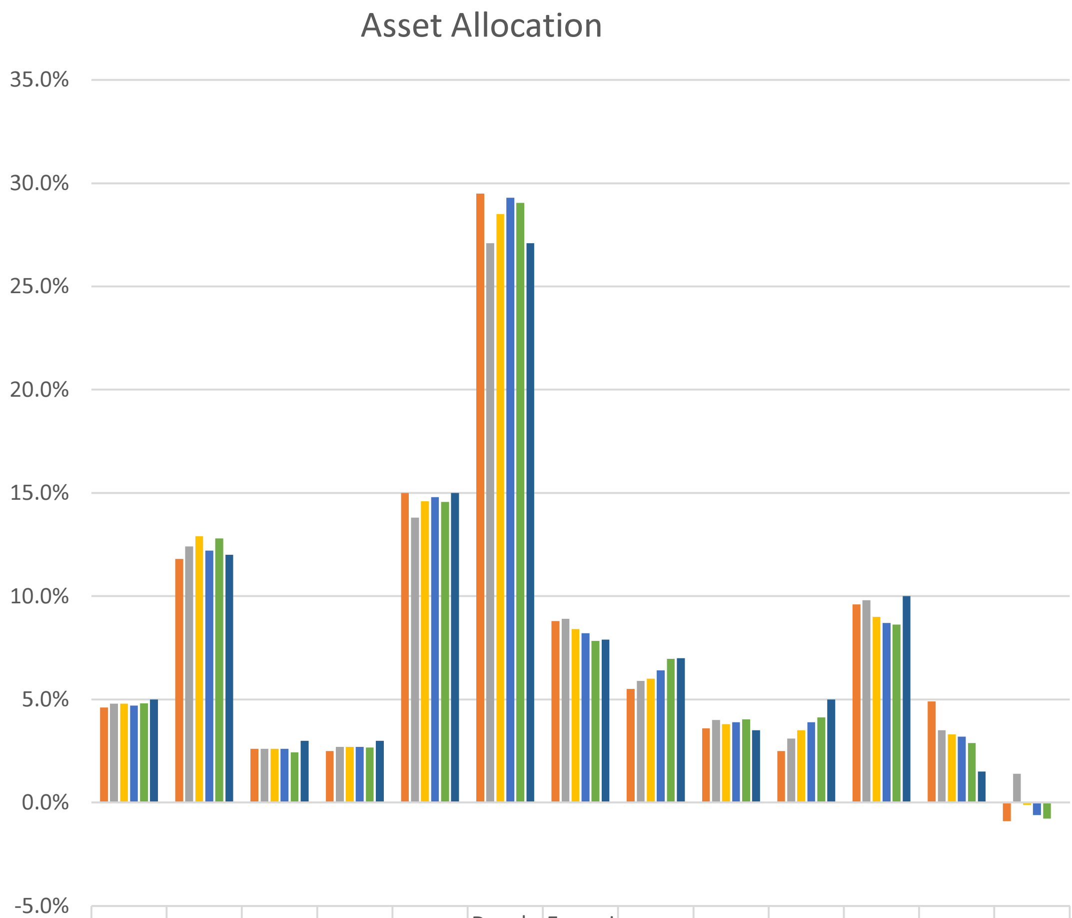
Index-linked gilts are the asset class that the Fund holds for inflation protection and we aim to maintain a neutral weighting. They are not cheap as an asset class and after a period of strong performance we reduced the overweight position that had developed.

We signed up to the Border to Coast Private infrastructure fund with an annual commitment of £100m. They finalised their first investment in September and the first drawdown of £1.9m was paid. We also made an 18 month commitment of £90m to the Private Debt fund in September but the first investment has yet to be made.

This leaves the Fund with an underweight position to bonds, alternative funds and property, and an overweight position to international equities and cash.

The change in weightings over the last few quarters can be seen in the next chart. The Fund has been very close to its benchmark weightings for most asset classes over this period although it can be seen that it has gradually been increasing its weighting to alternatives at the expense of quoted equities.

Asset Allocation Summary



	Royal London	UK Index Linked	High Yield Bonds	EM Bonds	UK Equities	Developed Market	Emerging Market	Private Equity	Private Debt	Real Assets	Property	Cash	Equity Protection
30/09/18 (%)	4.6%	11.8%	2.6%	2.5%	15.0%	29.5%	8.8%	5.5%	3.6%	2.5%	9.6%	4.9%	-0.9%
31/12/18 (%)	4.8%	12.4%	2.6%	2.7%	13.8%	27.1%	8.9%	5.9%	4.0%	3.1%	9.8%	3.5%	1.4%
31/03/19 (%)	4.8%	12.9%	2.6%	2.7%	14.6%	28.5%	8.4%	6.0%	3.8%	3.5%	9.0%	3.3%	-0.1%
30/06/19 (%)	4.7%	12.2%	2.6%	2.7%	14.8%	29.3%	8.2%	6.4%	3.9%	3.9%	8.7%	3.2%	-0.6%
30/09/19 (%)	4.8%	12.8%	2.4%	2.7%	14.6%	29.1%	7.8%	7.0%	4.0%	4.1%	8.6%	2.9%	-0.8%
Benchmark (%)	5.0%	12.0%	3.0%	3.0%	15.0%	27.1%	7.9%	7.0%	3.5%	5.0%	10.0%	1.5%	0.0%

30/09/18 (%) 31/12/18 (%) 31/03/19 (%) 30/06/19 (%) 30/09/19 (%) Benchmark (%)

Performance Summary

For the quarter to the end of September, the Fund returned 2.8% against the expected benchmark return of 2.8% which gives a year to date return of 6.2% against an expected return of 6.3%

Looking at the Fund ex equity protection we showed an outperformance of the benchmark giving a return of 3.0%. The outperformance was due to stock selection as asset allocation was neutral over the period.

The breakdown of the stock selection is as follows:-

Total equities	-0.2%
Alternative Assets	0.5%

Now looking at the equity protection strategy, the nominal value of the portfolio which was protected rose in value over the quarter by 3.1% and the value of the options detracted by £18.4m from the value of the Fund. This effectively reduced the return to the fund by 0.2%.

The indicative funding level as at 31 June 2019 was 101.5% and by 30 September 2019 was 103.1%.

The performance of the Fund can be seen in detail in the following slides.

Performance

as at 30 September 2019

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Royal London	4.2	3.7	6.4	5.7
UK ILGs	9.6	9.8	11.5	11.9
High Yield Bonds	2.2	3.7	4.8	5.7
EM Bonds	1.1	0.9	4.5	4.2
TOTAL	**6.6**	**6.9**	**8.8**	**9.0**
UK EQUITIES	**1.1**	**1.3**	**5.4**	**4.6**
INTERNATIONAL EQUITIES				
Developed Market - BCPP	2.8	2.8	9.9	9.8
Developed Market - SYPA	2.6	2.8	9.0	9.8
Emerging Market - BCPP	-1.4	-0.6	1.6	3.3
Emerging Market - SYPA	-5.9	-0.6	-19.6	3.3
TOTAL	**1.8**	**2.0**	**7.7**	**8.3**
PRIVATE EQUITY	**6.1**	**1.3**	**12.8**	**2.9**
PRIVATE DEBT FUNDS	**2.1**	**1.3**	**5.7**	**2.9**
INFRASTRUCTURE	**4.8**	**1.3**	**6.6**	**2.9**
PROPERTY	**0.7**	**0.7**	**1.0**	**1.4**
CASH	**0.1**	**0.1**	**0.3**	**0.3**
TOTAL FUND excl EPO	**3.0**	**2.8**	**6.9**	**6.3**
EQUITY PROTECTION (EPO)	**-36.7**		**-1146.5**	
TOTAL FUND	**2.8**	**2.8**	**6.2**	**6.3**

Performance attribution

For the quarter, the Fund returned 2.8% in-line with the expected return of the benchmark, with the Fund valuation rising from £8694.4m to £8913.8m.

Bonds
Stock selection was mixed across the portfolios but overall gave a negative relative performance.

UK Equities
After a period of very strong performance stock selection was negative over the quarter.

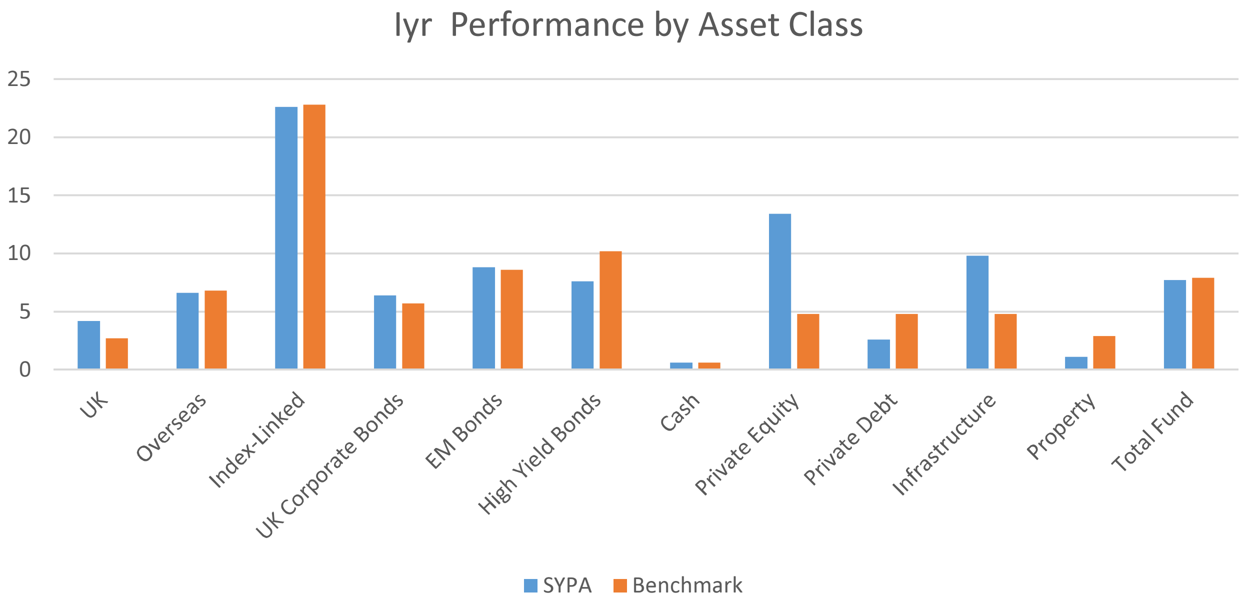
Overseas Equities
Stock selection was in-line across the developed markets but was negative across the emerging market portfolios. The residual portfolios are being sold down and are not expected to perform in-line with the benchmark.

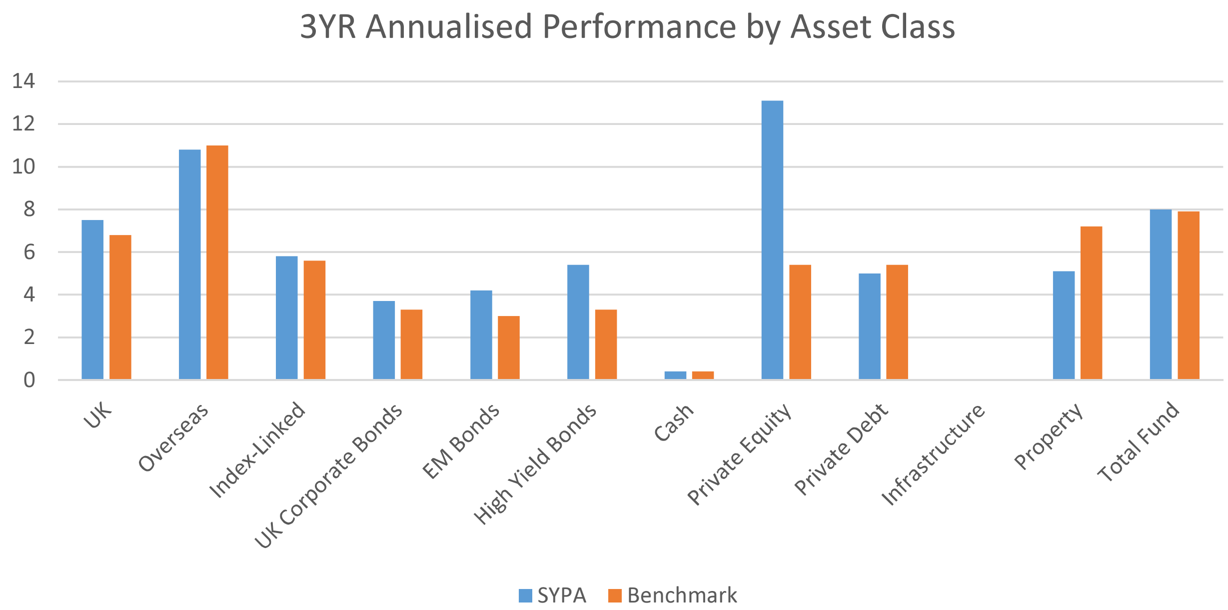
Alternatives
The performance across all the portfolios was positive.

Property
Performance was in-line with the benchmark.

Equity Protection
With the continued improvement in equity markets the equity protection strategy detracted value from the Fund.

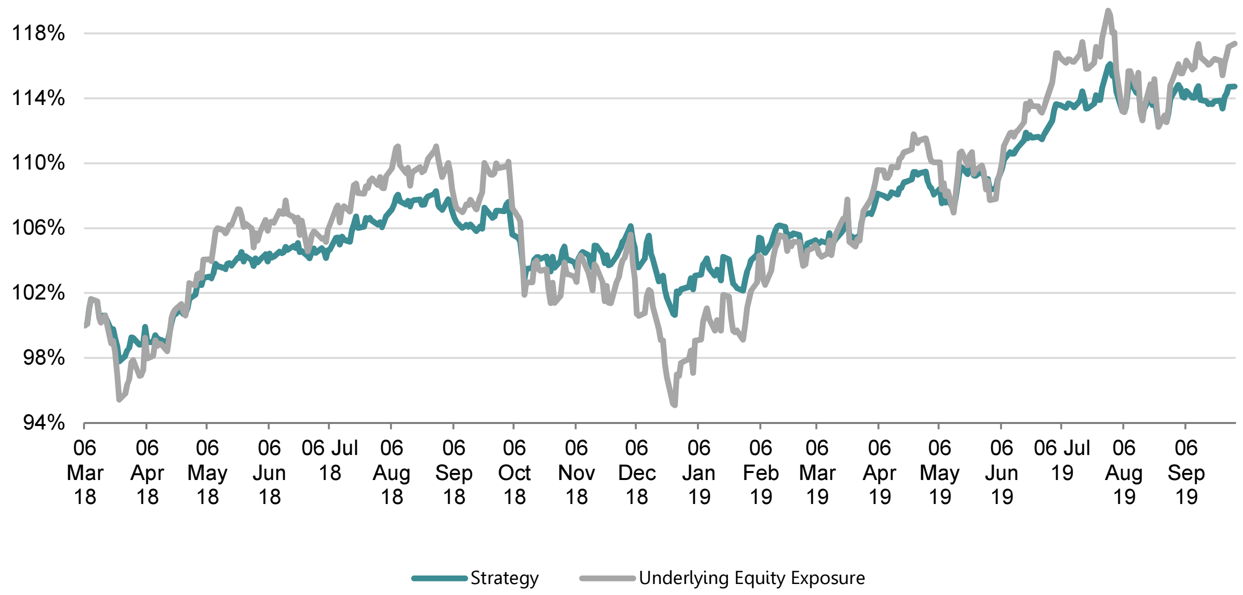
Performance-Medium term





Equity Protection

The equity protection strategy generated a negative return over the quarter given the rise in the financial markets. The strategy impacted the Fund value by £18.4m, which detracted from overall performance by 0.2%.



The gap in valuation between the equity protection strategy and the underlying equities has varied over the period. When markets fall there has been a positive impact but more recently as markets have risen strongly we can see that there is now a negative impact for the Fund. At the end of September this negative impact was £68.5m.

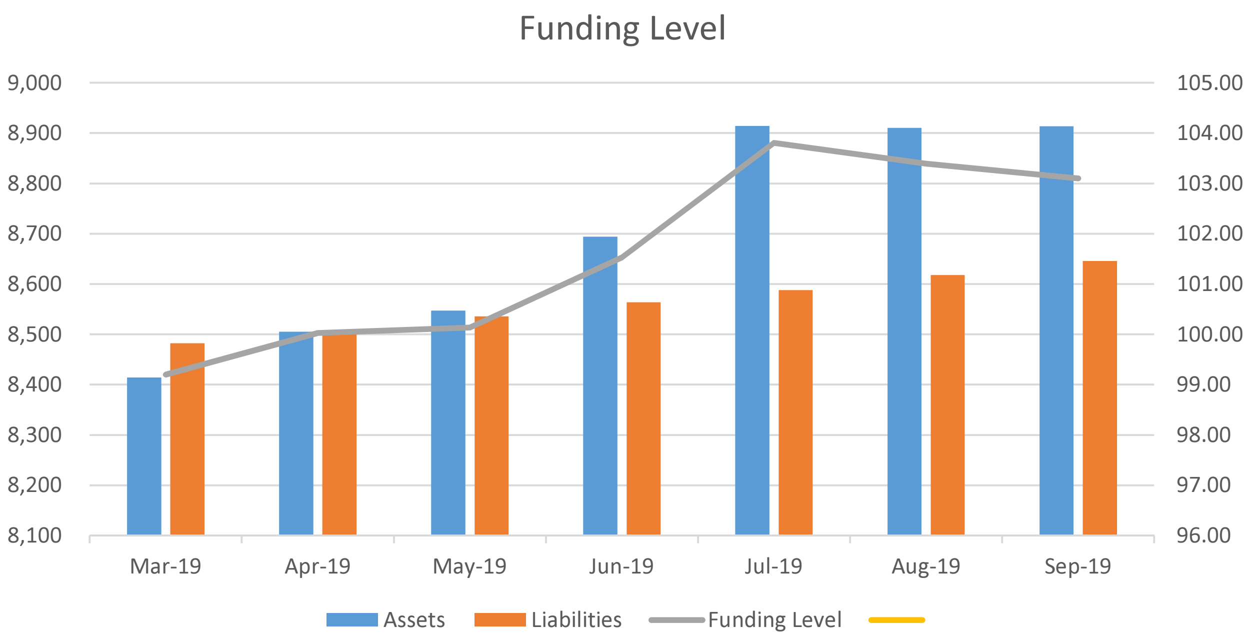
Funding Level

Last quarter we reported that the Funding level was 104% However the liabilities last quarter were calculated using the discount rate from the 2016 Valuation. Since then the discount rate has been adjusted by the Actuary for the 2019 Valuation expectations and the funding level at June would now be 101.5%. The funding level as at 30 September 2019 increased to around 103.1%.

The breakdown is as follows:

Fund's Assets:
As at 30 Sep 2019: £8,913.8m
As at 30 June 2019: £8,694.4m
An increase of £219.4m.

Funds Liabilities:
As at 30 Sep 2019: £8,646m
As at 30 June 2019: £8,564m
An increase of £82m.



Outlook

The outlook for global GDP growth has continued to deteriorate on the back of escalating global trade tensions. However, monetary conditions have become more accommodative with increased likelihood of central bank easing and prospects of further Chinese stimulus which would indicate that a global recession can be avoided in 2019/20.

Global growth expectations have been revised down for all major regions for both 2019 and 2020 and the key concern is that the central banks have insufficient headroom to use monetary policy to stimulate economies in the event of a recession, as interest rates are not high enough to enable cuts to have a significant impact.

The Federal Reserve cut rates 25bps in October and may signal more cuts to follow. Given the uncertainty regarding the impact of Brexit it is unlikely that the Bank of England will increase interest rates in the short term and the ECB has announced that it will be restarting its quantitative easing programme with €20 billion purchases a month.

UK Equities

Brexit continues to dominate the headlines with a further postponement announced but with the added complication of a general election on the 12th December. We would still, therefore, expect to remain underweight this asset class.

Overseas equities

Global economic growth continued to soften during the quarter and leading indicators suggest that this weakness may continue in the short term. Global inflation remains relatively benign and despite relatively strong labour markets, wage growth appears contained. Monetary conditions have become more accommodative in recent months, as inflation and interest rate expectations have fallen in response to weaker global economic growth. Concern remains that further quantitative easing risks merely boosting asset prices. Even though we have high rates of government debt it is now becoming likely that fiscal policy will be used to stimulate growth.

Outlook

Expanding price earnings ratios, as opposed to earnings growth prospects, have driven equity market returns. It is questionable as to whether this is sustainable as multiples are above their long term average in most markets. We expect market conditions to remain volatile, with a slowdown in global economic growth punctuated by rising and falling trade tensions and additional monetary and fiscal stimulus. We remain more weighted to overseas equities than to UK equities.

Within emerging markets valuations appear more attractive than for developed markets but trade tensions will drag on performance and therefore markets with a more domestic bias will be more attractive.

Will be reducing to fund the drawdowns to the alternative assets.

Bonds

Gilt yields are currently close to the all-time low, following other developed bond markets, although Brexit has undoubtedly been a major factor.

Investment grade spreads widened a little over the quarter but are still seen as vulnerable to economic shocks or upward surprises to gilt yields.

Global high yield spreads widened in August but are still a long way off the highs seen in early 2016. Levels remain low in a longer–term context and given the longevity of the economic cycle, it is difficult to make a case out for going long of high yield risk right now.

Dollar denominated emerging market bonds look relatively attractive in terms of yields and spreads over US Treasuries.

Risk free assets are very unappealing and credit spreads in riskier bonds are too low for them to be attractive to long term investors.

Will look to maintain a neutral weighting to index-linked gilts and remain underweight the other bond portfolios.

Outlook

Real Estate

Income is expected to remain the focus for investors and ASI do not expect that there will be any material change to the investment themes that they have been advocating over the past year until there is more clarity on the macroeconomic outlook.

ASI have decreased their anticipated 3 year forecast for property returns from 1.3% to 1% due to their expectations of negative GDP growth in 2020 with the negative consequences for UK property returns. They are expecting negative capital returns in each of the next three 12 month periods. They expect negative total returns in the first 12 month period but forecast that income returns will then keep total return positive thereafter.

Will continue to reduce the Fund's retail weighting and will look to make further acquisitions in the industrial sector or assets with long dated income in one of the alternative sectors.

Alternatives

The alternative investment market which includes investments within private equity, private debt and infrastructure, generally generates above market returns and with the pension fund currently slightly underweight in this sector, we are looking to add further investments into this asset class.

Cash

The deployment of cash to alternatives should see the continued reduction in cash balances.

SOUTH YORKSHIRE
PENSIONS AUTHORITY

Table of Contents

2019 was a party to end the decade. What kind of hangover will 2020 bring?

Highlights:

- **2019 ended a decade of growth and buoyancy for stocks and bonds with a resounding bang. It was a welcome respite to the fraught "aughts" (2000 – 2010) which formed the cradle of the Great Financial Crisis, the worst economic crisis since the Great Depression, and two stock market collapses.** [1]
- **During the past decade the US did not experience a single recession, and as such it was the first decade to do so since 1850 (when good records became available). The S&P 500 saw 200 all-time highs during the decade the last time, which saw the decade return positive returns in 9 out of 10 years, and equities far outpaced all other asset classes (despite bonds showing a total return of 43% for the decade). Annual returns for US equities were 13.1% per annum. There was also not a single bear market (a loss of 20% or more) during this period.**
- **While equities and bonds boomed, commodities were a bust over the past decade. The Bloomberg Commodity Index lost nearly 45% during the decade, where the price of WTI crude oil fell by over 27%. Gold prices are up 20% for the decade but remain 25% below their peak (August 2011).**
- **The decade presented more political than economic or financial shocks – with 2016 as the peak of election shocks, containing Brexit and the Presidential election in the US that brought the disruptive force of Donald Trump. Increased protectionism, nationalism and a disruption of old alliances (particularly on trade) drove an aversion to Emerging Markets which lagged developed markets, which themselves were dominated by a handful of tech stocks.**

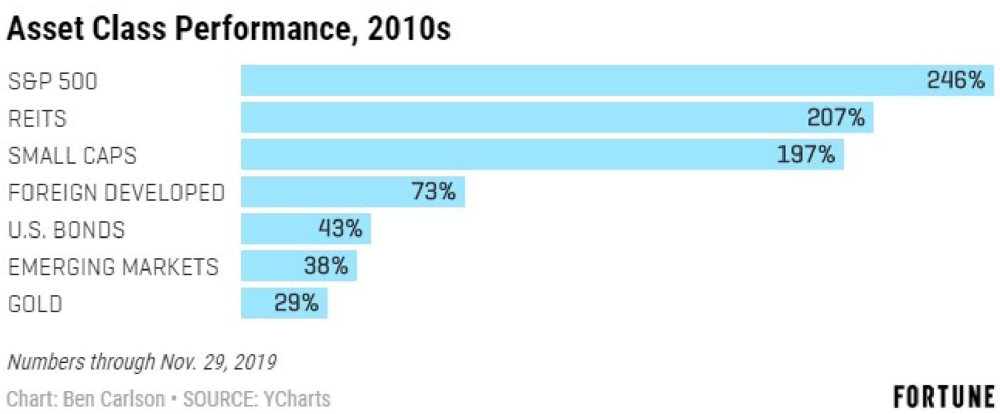
[1] https://awealthofcommonsense.com/2019/12/the-2010s-market-decade-in-review/

- **Central banks flexed their muscle as the decade's combined backstop, perhaps as a reaction to criticism that they had been slow to avert and then respond to the economic crisis of the decade fore. Only the US Fed was buoyed enough to start a rate rise cycle towards the end of the decade but reversed this in 2019 with three "insurance" rate cuts.**
- **Finally over the course of the decade climate change awareness reached the mainstream and every corner of world markets. Investors responded by elevating ESG concerns and stewardship issues to the forefront of their investment policies.**

***

Current macro snapshot

Looking back to look forward? A decade of healing, now what?
2019 ended with the same animal spirits that characterized much of the year, and defied expectations of a recession and geopolitical and trade-driven upset. It brought to an end a decade of extraordinary equity market growth and record setting in which developed markets led the way, and Emerging Markets lagged even bonds. As noted above, the record-breaking nature of the equity market surge (with 200 all-time highs reached in the S&P alone) and soaring market caps in tech stocks in particular, points to an unstoppable momentum in which growth dominated value and equities dominated alternative asset classes which became popular in the aftermath of 2008. Bonds too defied expectations as interest rates remained in check thanks to Central Bank easing.



The decade was an ebullient response, therefore, to a previous decade of angst. Investor memories may be short, it may have brought some healing. But what now? Do Central Banks, having sampled negative interest rates in Europe, have any tools left in their monetary policy toolkit? Will a shift to fiscal policy be necessary to stimulate spending and growth? While Europe has been characterised by anaemic growth, even in the US, the engine of global markets this decade, growth has been lacklustre. As noted last quarter, in the US growth levels for the third quarter hovered below 2%, while in China growth expectations have been downgraded to closer to 5%, below the 6-6.5% target.

After a decade of lagging developed markets, will emerging markets receive more attention or will there be too many political surprises in developed markets for investors to even consider more peripheral options.

As of the end of the year the decade of excess may have led to an element of complacency. The end to the year was dominated by the post-election redux in the UK as the country moved inexorably towards Brexit, as well as the impeachment vote in the US House of Representatives. Neither event triggered markets much at all. Markets indeed seemed to be drunk on their own momentum as US bourses broke through key record levels in a Santa Claus rally boosted by the economy continuing to "hum".

The current decade (2020s) has seen more risk aversion as the year started on a sober note in its earliest days. Raging wildfires in Australia took on near catastrophic "unprecedented" proportions while the killing of an Iranian General Suleimani sparked new fears of geopolitical fallout. The field of Democrat candidates for US President was winnowed down, while the US House Majority Leader Nancy Pelosi withheld the articles of impeachment from the US Senate, based on fears of lack of impartiality. It is a particularly noisy start to the year, with a particularly large helping of the "unexpected" in terms of newsflow. This could lead to a variety of outcomes as the year unfolds.

After 2019 ended the decade with a bang, we are now dealing with the morning after. Whether the party continues or a reckoning is overdue remains to be seen.

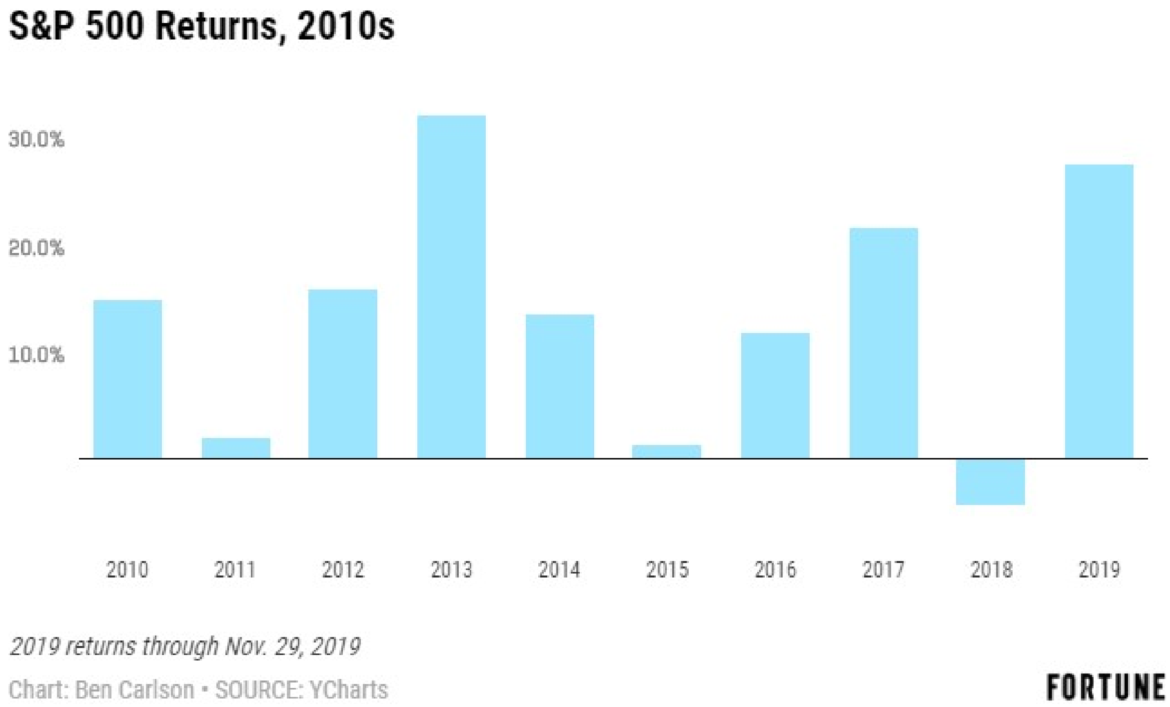
Individual Asset Class Performance

- Equities
- Fixed income
- Commodities
- Spotlight on Problem Credits

Equities: More records broken, but are investors getting queasy?

December delivered a robust end to a year characterized by broad-based strength and positive momentum. Despite the passing of articles of impeachment on President Trump, US markets were unphased and broke through new heights to return 3% for the S&P 500 and 3.6% for the Nasdaq, bringing the year to date figures to 31.5% and 36.7%, respectively. The news of progress towards Stage 1 of a US/China trade deal proved to be even more auspicious for China than the US, as the Shanghai Composite rose by 6.2% leading to a respectable 25.2% for the full year. Hong Kong was even more robust at 7% as protests there moved from the front page, although did not de-escalate much. Overall, emerging markets still lagged their developed counterparts in 2019 – the MSCI Emerging Market index added 7.3% in December to end the year up 18.6%, significantly behind Europe (DJ Stoxx +27.7%) but ahead of the FTSE 100 (+17.2%).

For the decade as a whole, annualized returns for US equities were 13.1% per annum, and there was not a single bear market during the period. The S&P rose in 9 out of 10 years, with only one negative year in 2018. Tech stocks denominated with the Nasdaq 100 rising by nearly 400%, and the stocks that dominated were the FAANGs (Facebook, Apple, Amazon, Google and Netflix). For the decade Apple, Amazon, Microsoft and Google saw their market cap rise from a cumulative $716 billion to over $4 trillion.



Fixed Income/Credit: how low can you go*?*

As noted already, fixed income has continued to perform strongly, particularly in the US, where high yield returned 1.9% in December to bring the year to 14.7%, and investment grade ended the year close to 14%. Government bonds were similarly robust, defying their roles as an insurance policy, with a strong performance in particular from US Treasuries (+5.9% for the year, UK Gilts up 7.1% and European sovereigns +6.7%). EM bonds too delivered a double-digit performance for the year with a particularly strong lift in Latin America in December.

Interest rates remained more or less range bound over the course of the decade as central banks honed their skills at managing market expectations and shoring up the economy. Unprecedented monetary easing failed to deliver run-away inflation, or a double-dip recession – in fact the only area with even modest inflation was the UK which experienced the inflationary effects of a weakened currency, driven off political concerns.

As an interesting aside, Sweden moved away from negative interest rates in December, out of an abundance of caution whereby it feared that negative interest rates would incentivize households to take on too much debt.

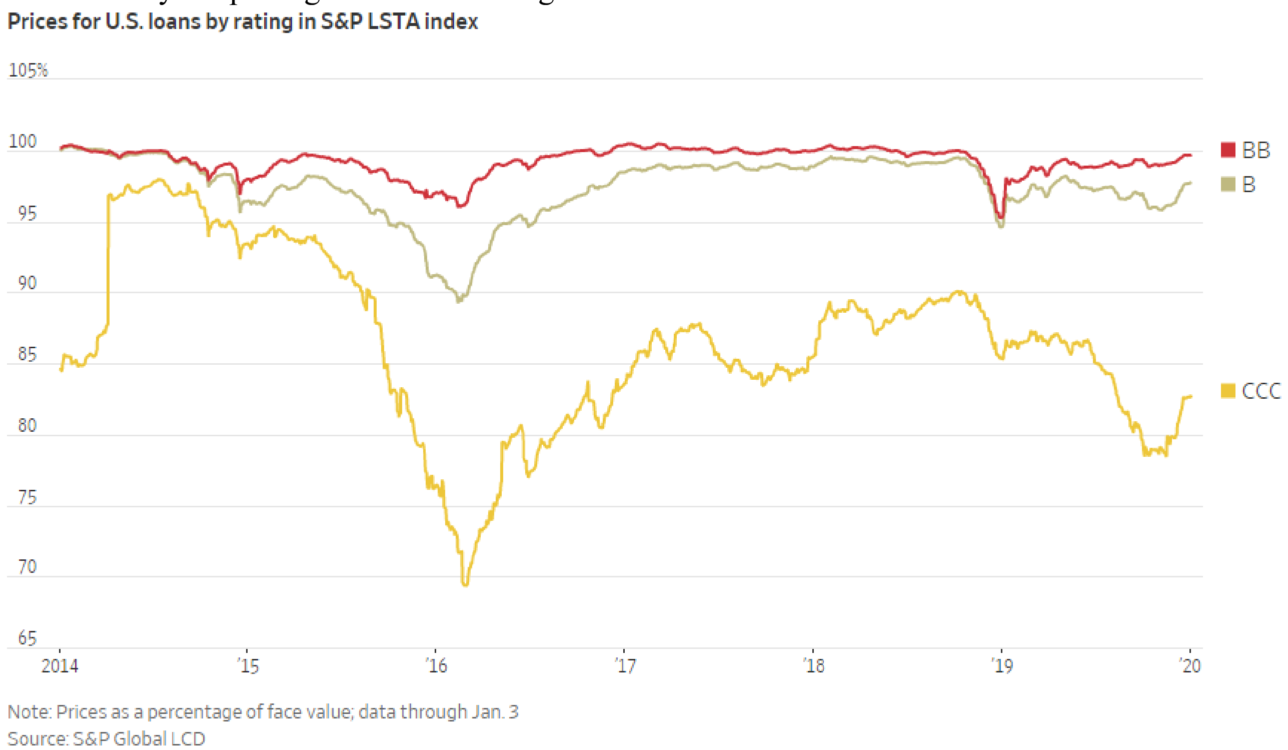
Commodities: a decade of bust but a recent pop in oil
It was primarily a lost decade for commodities, which had boomed during the previous 10 years. The Bloomberg Commodity Index lost nearly 45% during the decade, where the price of WTI crude oil fell by over 27%. Prices have, however, started to firm in the aftermath of rising Middle-East tension and in recent weeks exceeded $70 per barrel.

Gold prices are up 20% for the decade but remain 25% below their peak (August 2011). They too, responded positively to an increased perception of geo-political risk in recent weeks.

Spotlight on Problem Credits:

The 10-year long bull market in stocks and bonds has not seen full participation though and the lowest rated loans seem to be seeing some fall off in both valuations and demand. In December 2.5% of leveraged loans were trading at less than 70% of face value, which is the most since September. There was some pointing at lighter and looser covenants and a persistent understating of leverage ratios relative to earnings. There were also claims that borrowers were inflating earnings by including add backs of as high as 25% of EBITDA. Evidence suggests that the pace of deleveraging is rarely as swift as projected, and that the lack of covenant protection is accelerating a divestment of such stocks without much of a robust market to pick it up. Picking apart the add-backs may be done only erratically and the presence of transfer restrictions further constrains the potential demand for these loans. This all adds a layer of opacity which may obscure the true state of problem credits. If not a cause for concern, it is definitely a cause for heightened scrutiny.

As the chart below shows CCC rated loans persist in trading lower than more highly rated loans and more recently the pricing has been trending lower.



Outlook

So where do we go from here?

As we start the new year and a new decade we have carried over the recession-watching and forecasts of when the current bull cycle is likely to end. In the aftermath of the UK election all eyes will be on the Brexit process as steered by a new Conservative majority, while in global politics heightened tensions in the Middle East may cloud other developments such as on the trade front. In the US, the impeachment process will continue to compete for attention with the US/Iran tensions, and now that the Democratic field is narrowing the shape of the presidential election in 2020 will start to come into focus.

Looking ahead to the year to come, we have the following outlook:

- **The UK, its institutions, employers and investors are STILL in a waiting game.**
  With the election over, and a Parliamentary majority secured, the UK seems to be out of internal deadlock and into another waiting game – how the shape of a deal will be received by industry, markets and counterparts. In the absence of more actionable certainty we do not expect Sterling or UK markets to rally, and, indeed, in the first few weeks of the year Sterling broke through the $1.30 level on chatter of a further rate cut from the Bank of England.

- **Where next for the US as a distraction from impeachment process**? Last quarter we suggested that the distraction from the impeachment process by the US president would be the announcement of a trade deal or good news in order to boost markets at a strategically valuable time. It now seems that there has been a pivot to creating a national security crisis and increased defence spending as a means to shore up the incumbent, perhaps to distract from impeachment or other bad press. As noted above it remains an exceedingly noisy time. The pace of newsflow is at times overwhelming and salient economic data often gets lost in the volume of other news.

- **Beware the cracks in credit**. After a buoyant decade and the steady rolling back of credit protections it is inevitable that cracks are going to deepen and expose market frailties. It was interesting to note the reduced market for distressed debt given tightened guidelines for typical buyers such as CLOs. The absence of a working market may portend more volatility and more divergence between winners and losers. Just as the dominance of tech stocks have left other stocks in their wake, we expect more divergence within credit, leading to more fertile environment for active management perhaps, not just in credit but across the asset spectrum.

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January 15, 2020

Agenda Item 14

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Responsible Investment Update**	**Status**	For Publication
Report to	Authority	**Date**	23 January 2020
Report of	Fund Director and Head of Investment Strategy		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Fund Director	**Phone**	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To update members of the Authority on Responsible Investment Activity being undertaken by the Authority and by Border to Coast and to note the revised partnership Responsible Investment Policy and Voting Guidelines which were approved under the Urgent Business Procedure before Christmas.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the activity undertaken in relation to Responsible Investment issues since the last meeting of the Authority.**

b. **Note the Border to Coast Partnership Responsible Investment Policy and Voting Guidelines which were approved under the Urgent Business Procedure**

c. **Endorse the approach proposed to addressing the requirements of the new UK Stewardship Code which places additional reporting obligations on the Authority as an asset owner**

d. **Note the response to the Scheme Advisory Board's Draft Guidance on Responsible Investment.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Companies which are well managed and appropriately address the Environmental, Social and Governance risks which they face are more likely to deliver strong returns making the achievement of the goals set out in the Investment Strategy more likely.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

Responsible investment is a fundamental part of the Authority's investment beliefs and are central to how the Authority invests. A central part of a responsible investment approach is transparency about the activity undertaken both by and on behalf of the Authority.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

It is an important aspect of the Authority's accountability to stakeholders that the actions which it takes in relation to responsible investment are publicly reported so that there is proper transparency in relation to the Authority's activities.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report raise no specific issues in relation to the Corporate Risk Register.

5 Background and Options

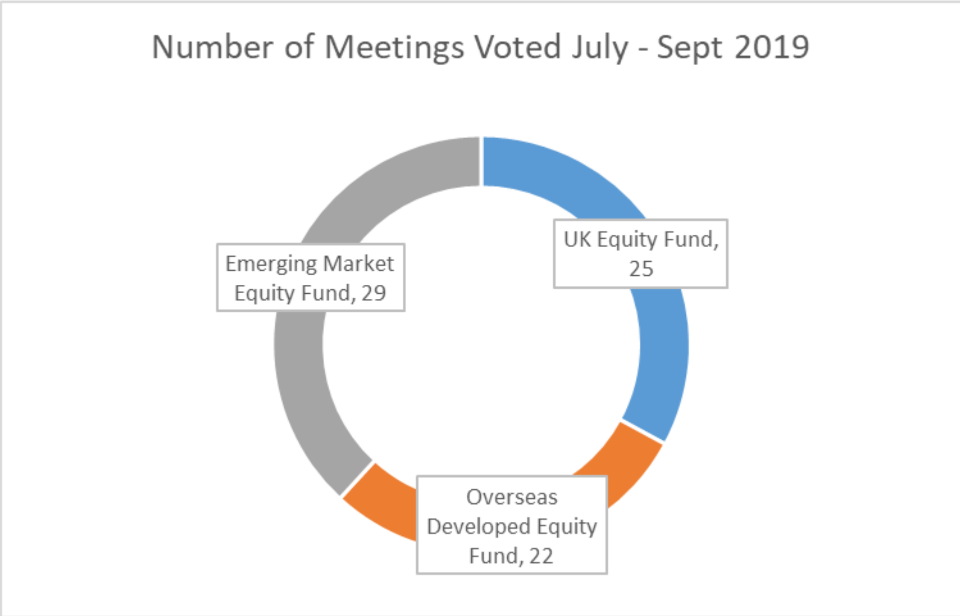
5.1 The Authority's approach to responsible investment is delivered through four streams of activity, largely in collaboration with the other 11 funds involved in the Border to Coast pool.

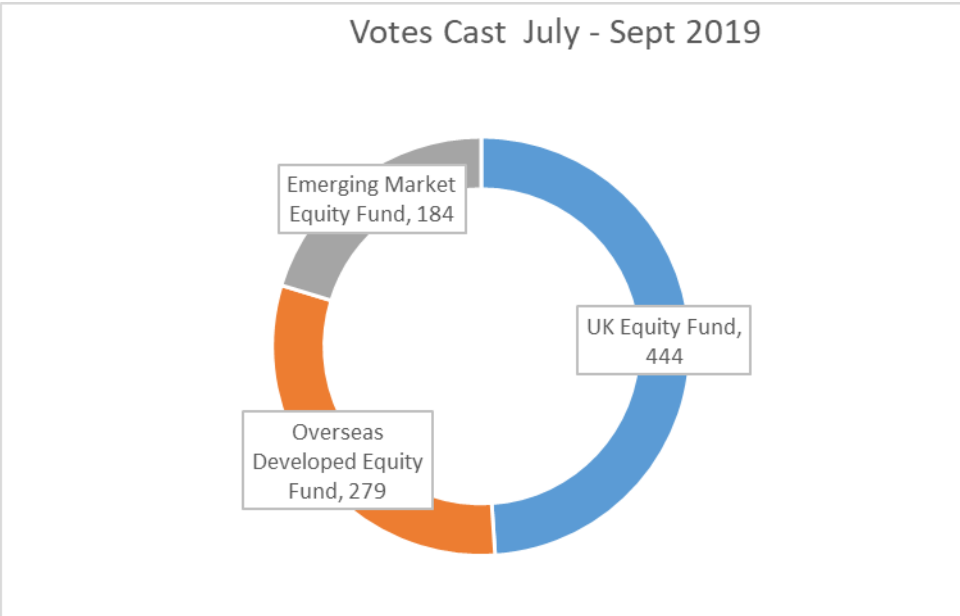
- Voting – Using the voting rights attached to shareholdings to influence the behaviour of companies to move in line with best practice.
- Engagement through Partnerships – Working with others to engage in dialogue with companies in order to influence their behaviour and also to understand their position on key issues.
- Shareholder Litigation – Joining in legal actions which seek to punish companies for corporate "misbehaviour" and thus protect the financial interests of the members of the pension fund.
- Active Investing – Making positive choices about which companies to invest in having considered the full range of responsible investment issues based on the premise stated above that well governed companies will produce sustainable and superior returns. This is part of the Authority's overall investment philosophy and is not covered in this report.

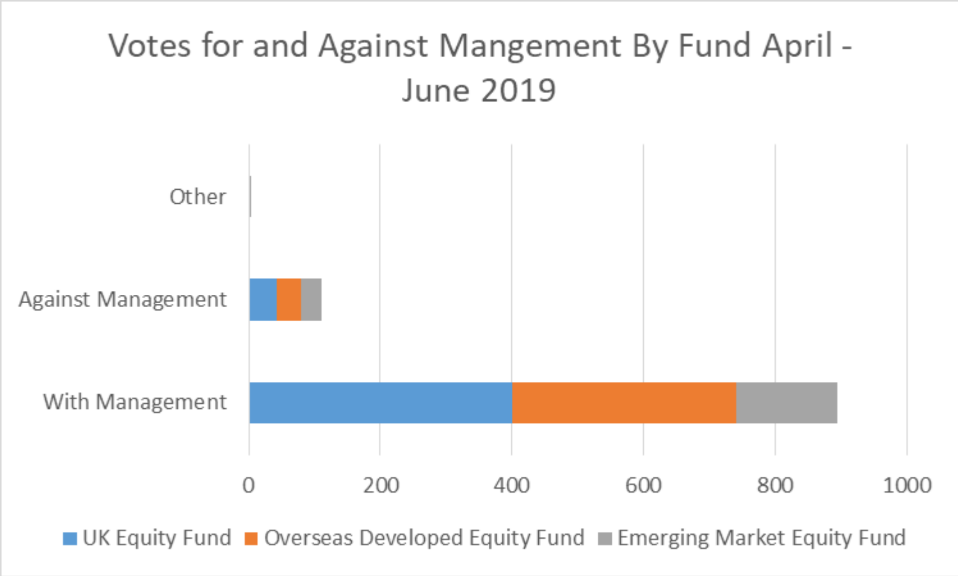
Voting

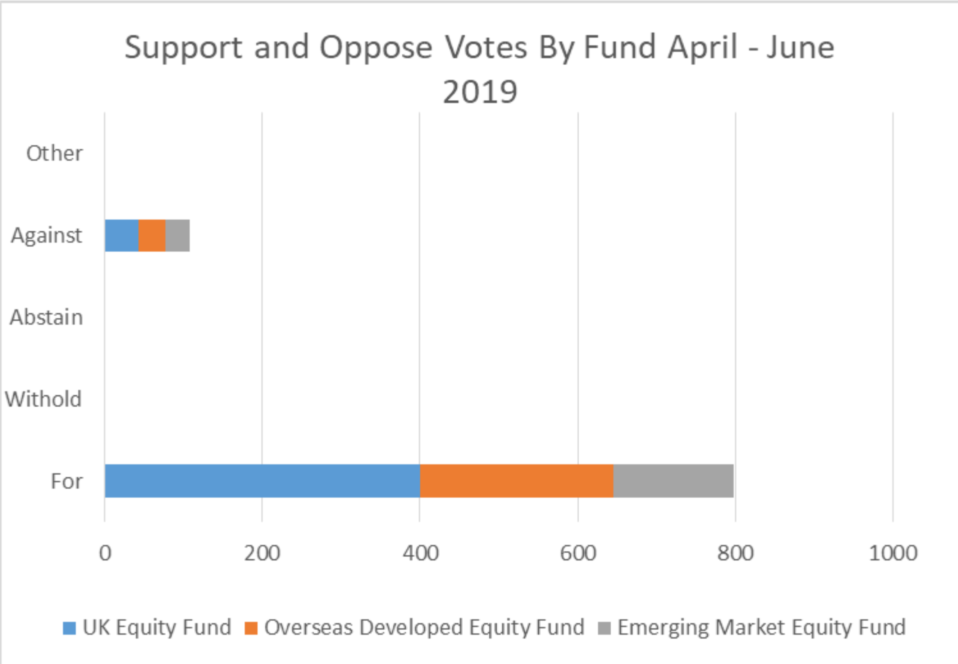
5.2 The charts below illustrate at a high level how the Authority's holdings in listed equities were voted in the period to the end of September 2019. Detailed reports setting out each vote are available on the Border to Coast website and in the member's on line reading room.

5.3 Reflecting the lower number of company AGM's in the quarter shares were voted on 907 resolutions at 76 meetings across all markets, with meetings being fairly evenly distributed between the three portfolios although with significantly more votes being cast in the UK. In line with the last quarter votes have generally been in favour of resolutions and supportive of management.









5.4 In the UK most votes against related to auditor appointments and board appointments, where the Voting Guidelines are (appropriately) quite stringent in relation to term limits and measures to ensure independence. In particular in relation to auditor independence and appointments recent scandals such as Carillion have raised this up the agenda. In the Overseas Developed markets the majority of oppose votes were related to executive pay followed by issues surrounding the composition of Boards. The pattern was similar in the Emerging Markets, although in this case issues of board composition predominated reflecting the distance that practice in these markets has to travel in order to reach what would be regarded as best practice.

5.5 The 2019 AGM season saw an increasing focus on issues of cybersecurity where shareholders have been looking for Board's to include members with expertise in this area. In addition shareholders have been looking to tie elements of executive remuneration to measurable indicators around data privacy and cybersecurity. A shareholder resolution to this effect at Verizon a large US Telecoms Company received 12% of total votes cast. This is clearly an area which will become increasingly important over time and as an investor we would wish to see companies attaching appropriate priority to it which is only likely if the executive are incentivised to do so.

5.6 Another more traditional area which has received significant attention during this AGM season has been succession planning. Where handled well this can protect and even enhance shareholder value at a point of significant risk. Where things go less well there is significant potential for value to be destroyed. The effectiveness of remuneration and nomination committees has been a focus within these discussions.

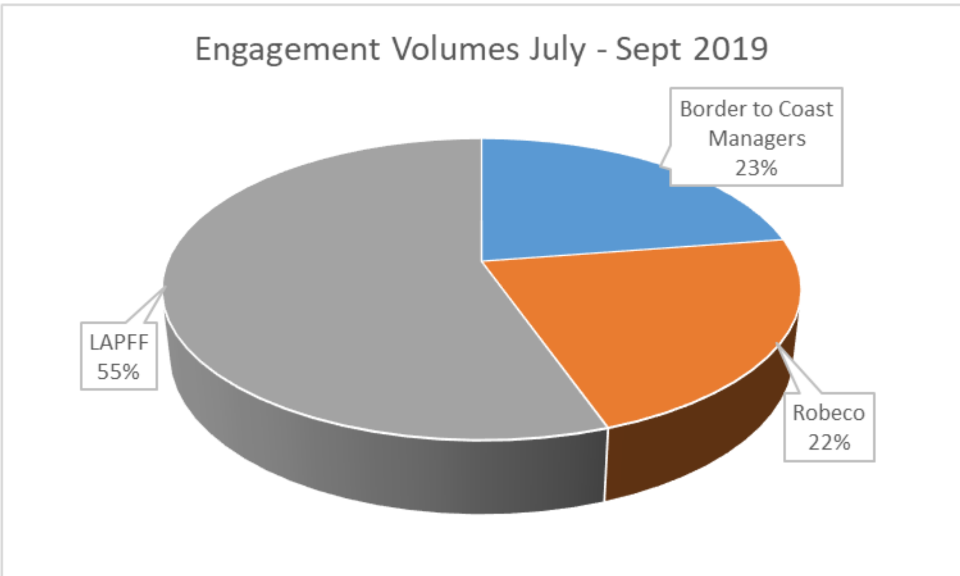
Engagement

5.7 The bulk of engagement activity carried out in relation to the Authority's holdings is undertaken either by Border to Coast using Robeco as their agent or the Local Authority Pension Fund Forum (LAPFF) who use PIRC as their agent.

5.8 In terms of the volume of activity 195 companies were engaged with through all routes during the quarter as summarised in the graph below. In considering this it is worth noting that Robeco's activity is more concentrated and focussed than that undertaken by LAPFF, hence while they are engaging with a smaller number of companies this is a longer term multi-stage process and hence these figures while giving an impression of the volume of activity do not necessarily compare like with like.

5.9 While the activity undertaken by Border to Coast's own managers was predominantly focussed on the UK both Robeco and LAPFF have a wider focus with 70% of LAPFF's engagements being focussed in the USA, and Robeco having more of a balance with 31% in the USA, 28% in Europe and 19% in the Pacific.

5.10 Climate and environmental issues remain major themes of engagement activity governance issues such as auditor appointments and board composition also featuring heavily given their prominence on AGM agendas. There is also a growing focus on engaging with businesses around the way in which they consider the UN Sustainable Development Goals in carrying out their business.



5.11 In terms of specific developments arising from engagement in the quarter the following are of note:

- Centrica announced plans to exit oil and gas production including disposal of its stake in Cuadrilla the largest company involved in fracking in the UK.

- National Grid announced that it is joining the Powering Past Coal Alliance a group promoting the move away from coal in the power generation market. This had been a specific ask from shareholders.
- The Investor Initiative on Tailings Dams has succeeded in 52% of the mining industry by market capitalisation fully and publicly disclosing the potential risks both to their business and to communities from the existence of these dams.

5.12 More specific details are available in the relevant quarterly reports cited as background papers and which are available in the members' on line reading room.

Policy Development

5.13 Responsible Investment is an increasingly important and prominent policy area and there have been a number of significant developments since the last report to the Authority.

5.14 Border to Coast have conducted the annual review of the Partnership's Responsible Investment Policy and Voting Guidelines. The updated policies are attached at Appendices A and B. These policies were circulated to members in November 2019 for comment and approved by the Chair under the Urgent Business procedure to ensure that approval was given before the end of 2019 to allow the new policies to be implemented in time for "peak voting season". The changes made to these documents are a result of:

- The addition of clarifications and additional detail, in particular in relation to the role of Robeco in voting in order to ensure compliance with the Shareholder Rights Directive.
- Additional detail around the engagement process and the process of escalation within the engagement process. This ensures compliance with the UN Principles of Responsible Investment and anticipates the new UK Stewardship Code.
- Changes to the voting guidelines to reflect best practice and also to address the different starting points of the wider range of markets to which they now apply. The wording of these changes was a matter of some debate amongst partner fund officers in order to ensure that a position accommodating different market practices does not allow firms who have already reached the best practice position to move backwards. This has been achieved.

5.15 Border to Coast have been developing their approach to adopting the six Principles of Responsible Investment which as a signatory to the UN Principles of Responsible Investment (UNPRI) they are obliged to adhere. The Company is looking both at its actions over the coming years in implementing these principles and the contribution and role of partner funds as set out in the table below:

Principle	2022 target – Border to Coast	Partner Fund Role
1. **Integrating ESG**	ESG-related tools and analysis well embedded and used by internal PMs External managers held to account	Long-term ESG factors are taken into account when setting strategy Border to Coast, and managers of any legacy positions, are held to account

Principle	2022 target – Border to Coast	Partner Fund Role
2. Active ownership	Holistic approach to engagement across portfolios and asset classes Clear voting indications for companies and public	RI policy and voting guidelines clear Support shareholder initiatives LAPFF
3. Require disclosure	Well-researched standard approach to requiring disclosures to support our investment process	Work with all managers to engage with companies on disclosure Become signatories to (and supporters of) various initiatives
4. Promote PRI	Principles embedded throughout our procurement processes and ongoing monitoring of contracts	Work with all managers (and other suppliers) to require work in line with PRI / become a signatory
5. Collaboration	Seen as a strong junior partner on collaborations with a strong network of collaborators	Support industry-wide collaborations
6. Reporting	Border to Coast and Partner Funds are well known for strong disclosures that set a benchmark for others	Transparency of approach to RI shared publicly (website, annual report & accounts, public statements)

5.16 The Company's Board is seeking to prioritise work in relation to principle 1 (integration), principle 2 (active ownership), and principle 6 (reporting). This would coincide with the view of officers in terms of achieving the most significant progress towards achieving a common platform for all of the 12 partner funds, and aligned with SYPA's aspirations in this area.

5.17 Following from this the Company has identified areas for development against each of the 6 principles in addition to "business as usual activity" which are set out in the table below together with the support that will be required from partner funds in order to ensure these developments both happen and have the desired impact.

Principle	Border to Coast strategic development	Partner Fund support
1. Integrating ESG	Embed investment process and enhance ESG tools including Robeco portal Training programme for PMs on thematic issues External manager monitoring framework Develop frameworks for new asset classes (bonds, property, private markets)	Current: education (e.g. climate working party); transparency of reporting; oversight of (pooled) managers
2. Active ownership	Create holistic engagement framework to enable tracking of milestones across portfolios Clear process for setting engagement themes	Current: common policy agreed and implemented for all Border to Coast holdings; education; LAPFF - representation at business meetings Future: training
3. Require disclosure	Review of industry initiatives to prioritise Gap analysis of portfolios and remedial plan Review Border to Coast disclosure	Current: engagement in respect of Border to Coast portfolio holdings and support for wider initiatives Future: Share review of wider disclosure developments
4. Promote PRI	External manager engagement framework Review wider procurement framework for ESG	Current: training for officers and committees Future: materials for websites
5. Collaboration	Develop collaboration capability by working with Robeco on an engagement Continue to build network and external profile	Current: collaborate in respect of Border to Coast engagement themes and portfolio holdings
6. Reporting	Enhance reporting on engagement and themes Standardise reporting across external managers Improve transparency	Current: disclosure on our website of voting and engagement activity, RI policy and voting guidelines Future: review of Partner Fund websites and development of checklist / materials for sharing

5.18 Commitment to this programme of activity within Border to Coast's Strategic Plan represents a significant step and supports the Authority's aspiration that the Partnership as a whole should make responsible investment central to its approach to investing.

5.19 The Financial Reporting Council has published the new UK Stewardship Code 2020. This Code represents a fundamental departure from the previous 2012 version of the Code and looks to set more exacting standards for all types of asset owner, in particular in relation to the openness and transparency with which they conduct and report upon their stewardship activities. As a tier 1 signatory to the current code SYPA will be expected to achieve the highest standards in terms of its compliance with the new Code. Clearly in order to achieve this we will be heavily reliant on the arrangements we have in place with Border to Coast and we will need to ensure that both they and we have the resources available to support the enhanced reporting that will be required of all funds. There is a process of transition to the new Code which will require the Authority to produce a report meeting the requirements of the new code by March 2021, which will therefore impact on the production of the next annual report, although many of the elements of reporting seem to be covered in the current report.

5.20 The LGPS Scheme Advisory Board is developing guidance for Funds in relation to their duties in the Responsible Investment space. The guidance will be in two parts the first will cover the parameters involved in operating within the regulations, fiduciary duty and general public law, and the scope for integrating ESG policies as part of the Investment Strategy Statement. The second part will cover case studies where ESG policies have been successfully implemented as well as relevant reading matter. Consultation on Part 1 took place over December and a copy of the draft document is available for members in the on line reading room. Officers provided a response to this document which is attached at Appendix C to this report.

5.21 While the Authority's responsible investment aspirations are in practical terms implemented through the collective Border to Coast policies we are required to maintain our own Responsible Investment Policies and these will be reviewed in the light of the revised Border to Coast policies and presented to the Authority for consideration at its next meeting.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	There are no specific financial implications arising from this report. However, the revised Stewardship Code may have implications in due course as a result of the need to provide additional reporting.
Human Resources	None
ICT	None
Legal	Participating in these activities is within the statutory powers of the Authority and is positively encouraged by the LGPS Investment Regulations.
Procurement	None

George Graham

Fund Director

Background Papers	
Document	**Place of Inspection**
Local Authority Pension Fund Forum Quarterly Engagement Report	www.lapfforum.org
Border to Coast Voting Reports	https://www.bordertocoast.org.uk/?dlm_download_category=voting-activity
Border to Coast Quarterly Engagement Report	https://www.bordertocoast.org.uk/?dlm_download_category=engagement
Robeco Quarterly Engagement Report	https://www.bordertocoast.org.uk/?dlm_download_category=engagement
UK Stewardship Code 2020	https://www.frc.org.uk/investors/uk-stewardship-code

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Responsible Investment Policy

Border to Coast Pensions Partnership

November 2019

Document Control

1. Version and Review History

Version no.	Version Description	Approver	Date
V0.1	Initial policy	Joint Committee	October 2017
V0.2	1st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.	CEO	10th Oct 2018
V0.3	2nd draft reflecting OOG amendments	CEO	19th Oct 2018
V0.4	1st draft presented to IC and OOG reflecting review by Robeco, ICGN Governance Principles, best in class asset owners and managers	CEO	26th September
V0.5	2nd draft reflecting OOG amendments	CEO	18th Oct 2019

2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	0.3	19th Oct 2018
Rachel Elwell	CEO	0.5	18th Oct 2019

3. Board Approval

Approved By	Version	Date
The Board	0.3	7th Nov 2018
The Board	0.5	5th Nov 2019

4. Key Dates

Event	Date
Effective Date	01/01/2019
Next Review Date	01/01/2020

5. Key Roles

Stakeholder	Role	Status
Head of RI	Document owner responsible for the management and amendment process, along with ensuring distribution of the framework	Drafter
CEO	Review ongoing drafts to ensure completeness	Reviewer

Border to Coast Investment Committee	Review and recommend for approval to Board	Reviewer
OOG	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Joint Committee	Review policy and any material alterations made thereafter	Reviewer
Border to Coast Board	Approve policy and any material alterations made thereafter.	Approver
Border to Coast Staff	Informed of policy and manage delivery in practice	Informed

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of responsible investment (RI) and stewardship responsibilities.

1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast takes a long-term approach to investing and believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines. Border to Coast has a dedicated staff resource for managing RI within the organisational structure.

The RI Policy is jointly owned and created after collaboration and engagement with our twelve Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed and updated as necessary.

4. Skills and competency

Border to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management Water stress	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Single use plastics Political lobbying

5.1. Listed Equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research when considering portfolio construction, sector analysis and stock selection. The Head of RI will work with colleagues to raise awareness of ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase knowledge, and portfolio managers will be involved in the voting process.

5.2. Private Markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast will take the following approach to integrating ESG into the private market investment process:

- ESG issues will be considered as part of the due diligence process for all private market investments.
- A manager's ESG strategy will be assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers will be requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring will include identifying any possible ESG breaches and following up with the managers concerned.

5.3. Fixed Income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis will therefore be incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data will be used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis will be used to determine a bond's credit quality. Information will be shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. External Manager Selection

RI will be incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engagement.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. Managers will be required to report to Border to Coast on their RI activities quarterly.

5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

Risks and opportunities can be presented through a number of ways and include:

- Physical impacts – damage to land, infrastructure and property due to extreme weather events, rising sea levels and flooding
- Technological changes - technological innovations such as battery storage, energy efficiency, and carbon capture and storage will displace old technologies with winners and losers emerging
- Regulatory and policy impact - financial impairment due to policy and regulation changes such as carbon pricing or levies, capping emissions or withdrawal of subsidies.
- Transitional risk - financial risk associated with the transition to a low-carbon economy, also known as carbon risk. It may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, creating investment opportunities as well as risks.
- Litigation risk - litigation is primarily aimed at companies failing to mitigate, adapt or disclose.

Border to Coast is:

- Assessing its portfolios in relation to climate change risk where practicable.
- Incorporating climate considerations into the investment decision making process.
- Engaging with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[1] recommendations.
- Encouraging companies to adapt their business strategy in alignment with a low carbon economy.

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[1] The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions.
https://www.fsb-tcfd.org/publications/finalrecommendations-report/

- Supporting climate related resolutions at company meetings which we consider reflect our RI policy.
- Encouraging companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Co-filing shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitoring and reviewing its fund managers in relation to climate change approach and policies.
- Participating in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are a signatory to the UK Stewardship Code[2] and the UN Principles of Responsible Investment[3].

6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our website at: Corporate Governance & Voting Guidelines. Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund wishes Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

6.1.1 Use of proxy advisers

Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A Robeco team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility will be required when interpreting the Voting Guidelines to

[2] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. https://www.frc.org.uk/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx

[3] The Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

reflect specific company and meeting circumstances allowing the override of voting recommendations from the proxy adviser.

Robeco evaluates their proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of Robeco's control framework and is externally assured. Border to Coast also reviews the services provided by Robeco on a regular basis.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies depositing their shares shortly before the date of the meeting (usually one week) with a designated depositary.

During this blocking period, shares cannot be sold until after the meeting has taken place; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may abstain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

Border to Coast has several approaches to engaging with investee holdings:

- Border to Coast and all twelve Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.

- We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, an external voting and engagement service provider has been appointed.

- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[4] breaches.

- We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

Engagement conducted can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact principles or OECD guidelines for multinational enterprises. Both sets of principles, cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue. For all engagements, SMART engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues.

We will engage with regulators, public policy makers, and other financial market participants as and when required. We will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

[4] UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

6.2.1 Escalation

Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

6.3 Due Diligence and monitoring procedure

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. Robeco, as the external Voting and Engagement provider is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

Robeco also undertakes verification of its active ownership activities. Robeco's external auditor audits active ownership controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on our website quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

We will also be voluntarily reporting in line with the TCFD recommendations.

9. Training and assistance

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

November 2019

Document Control

1. Version and Review History

Version no.	Version Description	Approver	Date
V0.1	Initial policy	Joint Committee	October 2017
V0.2	1st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.	CEO	10th Oct 2018
V0.3	2nd draft reflecting OOG amendments	CEO	19th Oct 2018
V0.4	1st draft presented to IC and OOG reflecting review by Robeco, UK Corporate Governance Code, SRDII, best in class asset managers and owners	CEO	26th Sept 2019
V0.5	2nd draft reflecting OOG amendments	CEO	18th Oct 2019

2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	0.3	19th Oct 2018
Rachel Elwell	CEO	0.5	18th Oct 2019

3. Board Approval

Approved By	Version	Date
The Board	0.3	7th Nov 2018
The Board	0.5	5th Nov 2019

4. Key Dates

Event	Date
Effective Date	01/01/2020
Next Review Date	01/01/2021

5. Key Roles

Stakeholder	Role	Status
Head of RI	Document owner responsible for the management and amendment process, along with ensuring distribution of the framework	Drafter

CEO	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Investment Committee	Review and recommend for approval to Board	Reviewer
OOG	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Joint Committee	Review policy and any material alterations made thereafter	Reviewer
Border to Coast Board	Approve policy and any material alterations made thereafter.	Approver
Border to Coast Staff	Informed of policy and manage delivery in practice	Informed

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.

- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.

- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large cap companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than nine years will be assessed on a case-by-case basis.

The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.

- Having had a material business relationship with the company in the last three years.
- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

Leadership

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chairman and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

In line with the government-backed Davies report and the Hampton-Alexander review we will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chairman or Senior Independent Director except when it is appointing the Chairman's successor. External advisors may also be employed.

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with the issues of stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event.

• **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met, or there is insufficient disclosure that the money is not being used for political party donations, political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate.

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. Any amendment to a company's Articles to allow virtual only meetings will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

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SOUTH YORKSHIRE
PENSIONS AUTHORITY

Bob Holloway

Pensions Secretary

Local Government Association

18 Smith Square

LONDON

This matter is being dealt with by: George Graham

Our ref:
Your ref:
Direct Line: 01226 772887
Fax: 01226 772938
Email: ggraham@sypa.org.uk
Date: 2019

Dear Bob,

Responsible Investment in the Local Government Pension Scheme – Part 1 Guidance

South Yorkshire Pensions Authority welcomes the opportunity to comment on the draft guidance produced by the Scheme Advisory Board. The Authority is responsible for one of the largest funds within the LGPS and places an extremely high priority on responsible investment which is one of its corporate objectives. We also seek to exhibit best practice in our governance (for example publishing our Gender Pay Gap when we are not required to) in order to encourage investee companies to behave in the right way.

In general the document seems a reasonable survey of the landscape but that is where it stops. While we understand that part 2 will contain best practice studies etc. there appears to be a gap between these and the analysis of the landscape. The best way in which this can be defined is some form of statement of expectations by the SAB around what practical steps administering authorities should be taking in this area, providing some amplification of the baldly stated statutory requirements. For example does the Board expect administering authorities to sign up to the FRC Stewardship Code at the highest level? Does the Board recognise the value of collaboration as a “force multiplier” in this field and if so does it wish to encourage administering authorities to participate in collaborations through this guidance.

These sorts of statements would not prescribe a policy stance, which as the document states, is a matter remaining in the province of the individual administering authority. However, in the same way as the Good Governance project is doing statements of this sort would set minimum standards against which all might be judged.

There is also, in our view, a gap in terms of pooling. While it is clear in the document that the primary responsibility in this area remains with the administering authority there are a range of practical issues about this where investments are pooled as the pooling entity, acts as a form of “managing agent” for the partner funds in the pool, and in many cases has received through staff transfers from individual funds the resource required to undertake much of the work on responsible investment. This tends towards the development of collective policies and voting guidelines adopted by all partner funds in order to facilitate the practical operation of the pool. This does not prevent individual funds taking their own positions or adopting a policy position which seeks to move others in a particular direction.

Floor 8, Gateway Plaza,
Sackville Street,
Barnsley, S70 2RD

www.sypensions.org.uk

It would perhaps be helpful for the guidance to recognise these sorts of practical implications of pooling where the ceding of sovereignty in one area through pooling means that the practical exercise of sovereignty in other areas needs to change.

There are a number of more detailed points, as follows:

Introduction and Purpose
The spectrum of capital diagram is a useful tool. However, there is a danger that it is simplistically interpreted to imply a left to right direction of travel. The reality must be more nuanced and different parts of a fund's portfolio will fit in to different parts of the spectrum and be held for different purposes, and it is also possible that some investments can be seen as falling into more than one category. For example SYPA's developing portfolio of real estate development loans focussed in South Yorkshire can be seen as a means of achieving exposure to real estate debt which exploits a niche in the market where others are not lending thus allowing good commercial returns. The fact that this has a beneficial impact in terms of local housing and employment is simply incidental. Equally the impact could be viewed as the prime driver.

Section 1A – What is RI?
This section should include reference to stewardship and active ownership which in addition to a focus on ESG factors are key aspects of an RI approach.

Section 1B – What are ESG Factors?
This would benefit from being a simple introduction rather than a long list which has some notable omissions and might well be wrongly seen as exhaustive, and is also repeated later in the document. There should be reference to materiality and the management of risk.

Section 1C – What about Climate risk?
The inclusion of this section is important but it needs to be expanded to include reference to the systemic risk which has the potential to impact long term investment returns across all asset classes. Considering this risk is a key part of Pension Committee's fiduciary responsibilities. Reference should also be included to the growing impetus for mandatory reporting in line with the TCFD requirements.

Section 1E – Non Financial Factors
The inclusion of a percentage, even if only in an example is inadvisable, as it will tend to become written in stone. As ever context here is key. Deciding to divest from a sector which is 3% of a portfolio may not involve any worse impact than divesting from one that is 15%, it all depends on the alternative investment opportunities.

Section1F – Asset Stewardship
It would be appropriate to bring the references to the FRC Stewardship Code up to date with the new and much more ambitious version of the Code which is what individual administering authorities will be needing to address when the guidance is published. This version of the Code seems to move those adopting it very much in the direction of the PRI which while undoubtedly the right thing to do will likely have some significant resource implications. It would also be appropriate to include reference to the Shareholder Rights Directive II.

Section 2E – What an Administering Authority May Do
This is one of the areas where the impact of pooling is not recognised (in this case in relation to appointing voting agents). There needs to be a recognition that arrangements will differ depending on the agreement within the pool. The key point is that Administering Authorities need to exercise robust oversight of and report to stakeholders on their voting activity, or voting activity carried out on their behalf.

Section 3C – Elected Members Code of Conduct
It is not entirely clear how this is relevant to this context given the clear exposition above which takes precedence over the Code.

Undoubtedly the issuing of guidance in this area that could result in improved standards of stewardship across LGPS and works with the grain of the work being undertaken by the pools and the Cross Pool group is a significant opportunity which should not be missed. However, if this is to be effective we feel that there needs to be a bit more meat on the bones in terms of what is expected.

I hope this is helpful and look forward to seeing the final version of the guidance together with Part 2 which I have no doubt will have useful learning for all funds within LGPS.

Yours sincerely

George Graham
Fund Director

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Subject	Approval of Border to Coast Investment Mandate	Status	For Publication
Report to	Authority	Date	23 January 2020
Report of	Head of Investment Strategy		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Sharon Smith	Phone	01226 772886
E Mail	ssmith@sypa.org.uk		

1. Purpose of the Report

1.1 To secure approval for the investment mandate for the Border to Coast Index-Linked Gilt product.

2 Recommendation(s)

2.1 Members are recommended to:

Approve the investment mandate for the Index-Linked Gilt Border to Coast product. Note that the level of commitment to this product will be determined at the time of launch by the Head of Investment Strategy having regard to the Strategic Asset Allocation under existing delegation arrangements.

3. Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Given the improved funding level, Index-Linked Gilts will remain an important asset class with regard to de-risking of the Fund’s assets.

4. Implications for the Corporate Risk Register

4.1 The actions outlined in this report specifically address the identified risk that Border to Coast does not develop products which meet the requirements of the Authority’s investment strategy.

5. Background

5.1 Border to Coast have now reached the stage where they are developing the mandates and investment structures for the fixed income products. In the same way as has been done for previous products this report sets out the detail of the mandate for Index-Linked Gilts for endorsement prior to officers undertaking the work necessary to transition assets or make new investments in the new structure.

5.2 Index linked gilts represent the most traditional of the fixed income sub asset classes and Border to Coast are currently proposing to offer an internally managed ACS sub fund with a modest out performance target of 15-25bps. This would be achieved by the opportunity to hold off benchmark positions in corporate and supra-national index linked bonds in order to generate this excess return not by playing the duration curve. This proposal broadly mirrors the mandate for SYPA's current index-linked allocation.

5.3 Our Government Index-Linked Gilts currently act as collateral for our equity protection policy but we still have £170m of corporate index-linked bonds that would be able to transition to this sub-fund at this moment in time. Other partner funds also use some of their holdings as collateral but at this stage it is thought that £1bn of bonds would be available to seed the new fund and at this size Border to Coast think that it is viable to launch the Fund.

5.4 Final details in terms of the overall duration of the portfolio remain to be finalised as the Partner Funds currently have a mix of mandates which are measured against the over 5 year or over 15 year index. SYPA currently uses the over 15 year index but in terms of duration the over 5 year index is only 4.38 years lower and the yield differential is 0.13% lower on the over 5 year index. The over 5 year index is larger having 7 more issues but not significantly larger.

5.5 In relation to this product the Head of Investment Strategy will determine the amount of assets to either transition into or invest into the fund, taking account of the strategic asset allocation at the time and the findings of the Investment Strategy Review when available. This reflects the current delegation arrangements.

6. Implications

6.1 The proposals outlined in this report have the following implications

Financial	The fees charged in relation to this fixed income product are likely to be around 3bps as the portfolio management costs are fixed – part of a PM's time, low research costs, indices, Bloomberg and contribution to overheads. Variable costs for depositary and custody are the same as for other sub-funds, approx. 1bp and stock lending revenues would negate some of these costs. This is in line with passive costs whereas market quoted fees for separately managed accounts range between 13-25bps for index-linked strategies.
Human Resources	None
ICT	None
Legal	This fixed income product will be an additional sub fund of the existing Authorised Contractual Scheme (ACS) and therefore while there will need to be a review of the detailed prospectus, no fundamental legal issues are raised by extending this structure.

Procurement	This is expected to be an internally managed sub fund and selection is not a procurement and therefore it is a matter that remains at the discretion of Border to Coast as the fund manager.

Sharon Smith

Head of Investment Strategy

Background Papers	
Document	**Place of Inspection**
None	

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Subject	**Funding Strategy Statement**	**Status**	For Publication
Report to	Authority	**Date**	23 January 2020
Report of	Fund Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Fund Director	**Phone**	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

To consider and approve the Authority's Funding Strategy Statement following consultation with stakeholders and the completion of the valuation process.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the process of engagement undertaken around the valuation results and the Funding Strategy Statement.**

b. **Note the comments made by stakeholders in relation to the draft Funding Strategy Statement and consider the proposed response to those comments.**

c. **Approve the Funding Strategy Statement at Appendix A.**

d. **To delegate to the Fund Director in consultation with the Actuary authority to finalise the Rates and Adjustments Certificate in line with the statutory timetable.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes.

The Authority is required to consult with stakeholders in preparing the Funding Strategy Statement (FSS). This report demonstrates a clear link between the comments made by stakeholders and the final FSS.

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

The FSS is, in effect the vehicle for setting out the Authority's strategy for setting employer contribution rates, and is therefore both influenced by and influences the Authority's investment strategy.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

The way in which the Authority engages with stakeholders around the valuation process and the development of the FSS is important in building the confidence of the employer community in the way in which the Authority exercised its responsibilities for stewardship of the Fund while balancing the different interests involved.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report address a number of key risks facing the Authority, in particular those relating to the maintenance and improvement of the funding level, risks around employer default and risks around cash flow. By setting and adhering to clear policies in these areas which are set out in the FSS the Authority is able to manage these risks in an appropriate way that balances the various interests involved.

5 Background and Options

5.1 The culmination of each triennial valuation process is the approval of the revised Funding Strategy Statement (FSS) together with the signing off of the Rates and Adjustments Certificate by the actuary. This report brings the valuation process to a conclusion for members by presenting the final FSS for approval.

5.2 The purpose of the FSS is to lay out both the assumptions used to underpin the valuation process but also a range of policies about how contribution rates are set given the overarching objective to achieve longer term stability in contributions. As a statutory document it is a requirement that the Authority consults with stakeholders on the policies which it proposes to implement. The Consultation process in this cycle has involved the following:-

- A formal consultation with all employers on key actuarial assumptions before the valuation date of 31st March 2019.
- A presentation by the Actuary at the Employers' Forum on 12th November 2019.
- Discussions with key employer groups covering both valuation results and these policy issues (separate meetings were held with District Councils, Academies (5 sessions were provided for Academies), F&HE Institutions and other employers).
- All employers have been provided with the draft Funding Strategy Statement for comment.
- The Local Pension Board considered the draft FSS at its December meeting.

5.3 The feedback from this process of engagement is reflected below. It should be noted that this is a more active process of engagement with employers than has previously been undertaken.

5.4 The key changes reflected in the draft FSS which is at Appendix A are set out below:

- **Alternative Funding Targets –** As a precursor to the introduction a differentiated investment strategies reflecting the risk to the Fund posed by specific employers different funding targets may be used for employers with a lesser covenant in order to provide more certainty that liabilities will be met. This approach will initially be particularly focussed on Community Admission Bodies especially those without a guarantor.
- **McCloud –** An estimate has been made of the impact of the McCloud case and employers are being provided with the option of making additional contributions now to begin to meet the cost or to make what may be a greater level of contributions (including a "backdating" element) once the final remedy is known. This potentially provides greater stability in contribution rates for employers who choose take this option.
- **Short Term Pay Growth –** The assumption about short term pay growth based on research with major employers has been set at 3% for the next 3 years. This includes the effect of incremental progression as well as headline pay awards and thus is likely to be closer to the real growth in the pay bill.
- **Ill Health Captive –** The scope of this arrangement which in effect insures ill health liabilities for smaller employers will be increased to all employers with fewer than 100 active members. Employers who have participated up to now will likely see a reduction in premiums due to experience over the last 3 years.
- **Prepayments –** Options will be provided for all employers to prepay any deficit contributions, in addition the option to pay off the whole deficit will be offered. District Councils will continue to be offered a prepayment arrangement in relation to future service contributions.
- **Contribution Stability –** For employers who still have a deficit the total cash level of contributions over the period 2020-23 will be maintained at the same level as currently plus inflation. This provides a balance in sharing the benefits of improved funding levels between employers and the Fund where a deficit remains while increasing the certainty of recovering the deficit.
- **Deficit Recovery –** The maximum deficit recovery period will be 16 years (a reduction of 3 years as compared to the last valuation). Where possible and within the overall approach to contribution stability deficit recovery periods for individual employers will be brought down further.
- **Phasing of Contribution Increases –** Phasing of contribution increases will be allowed (at the discretion of the Fund) but only on the basis of the total contributions payable over the period 2020-23 being the same as required in the actuary's initial assessment. Additionally discussions are being held with Academies and F&HE Institutions about implementing any new contribution plans on an academic year basis in line with funding.
- **Academies –** The Fund's default position will be that Multi Academy Trusts are treated as a single employer, although individual schools will continue to be tracked separately.
- **Outsourcing and Exits –** Policies are proposed to address issues surrounding exit credits, the new fair deal and the Government's proposals around deferred employer status.

5.5 The framework set out in the draft FSS is intended to protect the Fund and ensure the greatest possible likelihood of achieving and maintaining full funding at employer level while at the same time giving flexibility to recognise both the general financial pressures facing employers and deal with cases of particular difficulty.

5.6 There are a number of uncertainties which the policy framework set out in the draft FSS seeks to address. The largest of these relates to the impact of the McCloud judgement, where while an estimate of the cost has been made no proposals have been tabled by the Government which would define the nature of the actual remedy. In general terms it will, all other things being equal, serve employers better to make provision for these costs now, rather than wait until a remedy is in place and play catch up. However, there is an affordability argument and the Fund has no power to make employers pay additional contributions in relation to what is at present a notional liability.

5.7 A limited number of comments have been received from stakeholders as follows:

- The Local Pension Board noted the FSS and made no specific comments on its content.
- Two Community Admission Bodies with no guarantor have raised specific circumstances with regard to their own treatment under the alternative funding targets arrangements and the arrangements for contribution stability. These will be dealt with through individual discussion, as in essence both are asking the Authority to exercise discretion in the application of the policy. However, fundamentally the policy intent is to reduce the risk of employer default impacting on the rest of the Fund and of deficits recurring once they have been eliminated both of which are fundamental to the prudent management of the Fund.
- Two Multi Academy Trust have responded in relation to their own preferences in regard to the implementation date for contribution changes and the use of a single rate for a MAT. These views will be reflected in the finalisation of the rates and adjustments certificate as they do not impact on the principles in either case.
- One College queried the grouping of Academies and F&HE Institutions for the purposes of employer risk management. While the scale and nature of funding of these institutions does differ significantly at present officers' view is that the level of risk to the Fund from these different types of institutions is broadly similar and therefore grouping them together for this purpose, which will ultimately include the development of a differentiated investment strategy is appropriate. However, the final assessment of the risk posed by any individual employer is an individual judgement and a result of discussion with that employer therefore these groupings are more of an administrative convenience than fixed entities.

5.8 Alongside the consultation on the FSS officers and the Fund's Actuary have been discussing proposed contribution rates with employers in order to finalise the actuary's report and the Rates and Adjustments Certificate which is the document which summarises the contributions to be paid by all employers. Overall the result of the valuation point to a funding level of 99.2% with a residual net deficit of some £68m. However, the results and thus the implications for contributions vary significantly between, and within groups of employers. In general employers who have been very long term participants in the Fund are either now in or very close to a surplus position. Thus the removal or reduction of their deficit contributions more than meets any McCloud liability allowing them to make savings. On the other hand schools who have more recently converted to academies have received less benefit from the compounding of investment returns over time and therefore have not seen the same degree of closure in their deficit as other employers.

5.9 Given the timescale for agreeing final contribution rates with all employers and the need to ensure publication of the final actuarial report it is suggested that as this is an essentially technical exercise of applying the policies set out in the FSS that the agreement of contribution rates and finalisation of the Rates and Adjustments Certificate is delegated to the Fund Director in consultation with the actuary. A report summarising the impact of the valuation process on contribution levels will be brought to a future meeting.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	The FSS defines the plan for contributions over the next valuation period and consequently has significant implications for the Fund's cash flow and the balance between contribution income and benefit payments. As such, given the change in funding level, there are potentially significant implications for the financial balance within the Fund and the need to utilise, rather than reinvest, investment income. These implications will be addressed in the Investment Strategy review and the update of the Medium Term Financial Strategy.
Human Resources	None
ICT	None
Legal	The production of the FSS including consultation on its proposed contents is a requirement of the Local Government Pension Scheme regulations.
Procurement	None

George Graham

Fund Director

Background Papers	
Document	**Place of Inspection**

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DRAFT

FUNDING STRATEGY STATEMENT

SOUTH YORKSHIRE PENSION FUND

NOVEMBER 2019

South Yorkshire Pensions Authority

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

EXECUTIVE SUMMARY

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

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

> The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the South Yorkshire Pension Fund.
>
> It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

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

MEETING THE FUND'S SOLVENCY OBJECTIVE

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next to meet the primary objectives. This in turn means that contributions will be subject to change from one valuation to another.

This objective is considered on an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.
The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for this objective to be reasonably achieved in the long term at each valuation.

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis, taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives.

The level of prudence has been quantified by the Actuary to show the level of contingency to provide protection against future adverse experience in the long term. Individual employer results will also have regard to their covenant strength. Broadly speaking the discount rate has been set so that there is approximately a 66% (or two-in-three) chance that the real returns achieved will be at least those assumed in the discount rate. The level of prudence will be reviewed each valuation taking into account the solvency and long term cost efficiency objectives for the Fund.

SOLVENCY AND LONG TERM COST EFFICIENCY

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

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers. The funding parameters and assumptions e.g. deficit recovery period must have regard to this requirement which means a level of prudence is needed. Furthermore, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

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

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 99% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall. At an individual employer level, there will be some instances where an employer's asset share is higher than the liabilities and therefore a surplus will exist. In such cases, a plan may need to be implemented to remove some, or all, of the surplus over an agreed timeframe, taking into account any increases to the Primary Rate which also emerge.

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

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed which in the long term provides equity between different generations of taxpayers whilst ensuring the deficit payments are eliminating a significant proportion of the capital element of the deficit, thereby reducing the interest cost. This will be periodically reviewed depending on the maturity profile of the Fund.

Subject to affordability considerations and individual employer circumstances, where a deficit exists and depending on the level of deficit, a guiding principle will be to maintain the total contributions at the prescribed monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period). Contributions will only be reduced if the Fund deems this reasonable based on covenant and other risk factors. Full details are set out in this FSS.

Where there is a material increase in contributions required at this valuation, in certain circumstances the employer will be able to 'phase in' contributions over a period of 3 years in a pattern agreed with the Administering Authority and depending on the affordability of contributions as assessed in the covenant review of an employer. Employers will also be able to prepay deficit contributions if they have sufficient cash reserves to assist with affordability. Equally, certain employers will be able to align their contributions changes with their financial year if this does not end on 31 March.

The maximum recovery period for the Fund as a whole is 16 years at this valuation which is 3 years shorter than the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce by a minimum of 3 years at this valuation.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. Employers will be able to <u>choose</u> to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they will need to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation.

[Drafting Note – This paragraph has been added following the guidance issued by the Scheme Advisory Board on 14 May 2019 concerning how to deal with the potential additional liabilities arising from the Cost Cap process and the McCloud and Sargeant age discrimination case (McCloud) (found here: http://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf).This may need further adaptation once the outcome of the consultation is known. The Actuary will look at a potential cost to employers as part of the 2019 valuation process.]

ACTUARIAL ASSUMPTIONS

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

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns <u>in excess</u> of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year).

The assumption for the long term expected future real returns has fallen since the last valuation. This is principally due to a combination of expectations the returns on the Fund's assets and the level of inflation in the long term. Also, the Fund has implemented a number of risk management strategies since the last valuation and the expected volatility of returns has fallen i.e., provides more certainty to outcomes. This is also taken into account by the Actuary when proposing the assumptions and at this valuation means that the level of prudence has been reduced. The assumption has therefore been adjusted so that in the Actuary's opinion, when allowing for the resultant employer contributions emerging from the valuation, the Fund can reasonably be expected to meet the Solvency and Long Term Cost Efficiency objectives.

Taking into account the above the Fund Actuary is proposing that the long term real return over CPI inflation assumptions for determining the baseline past service liabilities should be 1.5% per annum and 2.35% per annum for determining the future service ("primary") contribution rate. This compares to 2.0% per annum and 2.75% per annum respectively at the last valuation.

Based on the assumptions being borne out in practice and the membership at the valuation date the aggregate projected expected return for the Fund as a whole over the 16 recovery period is a real return of CPI+1.75% per annum.

Alternative Funding Targets and Risk Management Framework

In the short to medium term, the Fund intends to implement a risk management strategy whereby employers will be categorised into different "investment" buckets. In such cases a different investment strategy would apply to the different groups of employers resulting in lower investment risk than the current whole fund strategy.

The Fund is therefore beginning to categorise employers in the following way. This will form the basis for any initial allocation into the different "investment" buckets.

Local Authorities – District Councils (including maintained schools), Police Fire, Combined Authority Group and SYPA. These employers either have the power to raise income through taxation or, in the case of SYPA, costs are entirely met by the Pension Fund.

Education Sector – F&HE Institutions and Academies. All these employers are ultimately funded by central government, although in different ways and with different forms of support. They do represent similar forms of risk although the likelihood of default can vary significantly between institutions.

Contractors – These employers can range from large multi-nationals to relatively small local businesses. Where contracts are let by a local authority there tends to be a guarantee, while the situation with contracts let by academies is more variable. However, in all cases the ultimate position is that the council or academy would need (at least in the short term) to take on any service (and hence pension liability) in the event of failure.

Others – While an extremely varied group this group probably presents the greatest likelihood of default (if possibly the least financial impact). In general, such employers have no or limited guarantees and therefore there is a danger that in the event of default liabilities will fall on the remaining employers.

If an employer is deemed to have a weaker covenant than others in the Fund, is planning to exit the Fund or would like to target a lower risk strategy, the Administering Authority has the discretion to move that employer (typically following discussions with the employer) into another strategy to protect the Fund as a whole. The current overall Fund investment strategy (as set out in the Investment Strategy Statement) will be known as the “higher risk investment strategy”. The investment strategy for each of the investment pots will be reviewed, following each actuarial valuation, as a minimum. The discount rate assumption that will be used for employers’ liabilities who fall into each category is linked directly to the relevant pot’s underlying assets allowing for the underlying level of risk associated.

Given that this risk management strategy will not be implemented before 1 April 2020, for the purpose of the 2019 actuarial valuation the setting of contribution rates to apply between 1 April 2020 and 31 March 2023, the Administering Authority will, depending on the circumstances of the employer, potentially apply a different funding target to certain employers in order to protect all stakeholders in the Fund i.e. to reflect different covenant / objectives etc. The different funding targets will be achieved by applying either a **5%** or **10%** loading to the employer’s baseline liabilities. In particular, where employers with a weaker covenant and in particular those with no guarantee have achieved a significant surplus based on a 100% funding target, a higher funding target will be set so as to deliver increased certainty that the employer will not fall into deficit in future.

Where a different funding target applies, this will be reflected in the employer’s deficit contributions / surplus offset over the period to 31 March 2023.

Demographic Assumptions

The demographic assumptions under all groups are based on the Fund Actuary’s bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant. For those employers terminating participation in the Fund, a more prudent mortality assumption will apply (see further comments below).

EMPLOYER ASSET SHARES

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

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset shares, are allowed for when calculating asset shares at each valuation. Once the risk management strategy referred to above has been implemented, the investment return credited will depend on which bucket the employer's assets are in. In addition, the asset share may be restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

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

1. Covenant assessment and monitoring

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

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

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

2. Admitting employers to the Fund

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

- Mandatory Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution for example Town and Parish Councils.

- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.
- [Employers may also join the Fund under the 'Deemed Employer' route. Further information on this is set out within **Appendix C**.]

  [Drafting Note – This has been added following the consultation published by the MHCLG on 10 January 2019 (found here: https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

The key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible. The different employers pose different risks to the Fund.

In general, there will be a presumption against the admission of further, what were previously termed "Community Admission Bodies". Any such admission that is made will require a guarantee from a tax raising body.

Certain employers may be required to provide a guarantee (e.g. from a parent company) or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. New academy conversions and multi-academy trusts

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

If the contribution rate for a local authority does not include any allowance for deficit funding contributions at the point at which a school converts to academy status, then no deficit will be allocated to the academy at the point of conversion.

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

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

4. Termination policy for employers exiting the Fund

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

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to minimum risk investment returns (i.e. those that will be linked to any lower risk investment strategy subsequently implemented) and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 3 months of completion of the cessation assessment by the Actuary. The Administering Authority will seek to modify this approach on a case by case basis if circumstances warrant it (for example, it may work with the outsourcing scheme employer to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers).

This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

Where there is a **guarantor** who would subsume the assets and liabilities of the outgoing employer, the policy is that any deficit or surplus would be subsumed into the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate agreements that have been put in place between the exiting employer and the outsourcing scheme employer.

If all parties do not agree then the surplus will be paid directly to the exiting employer within 3 months of cessation (despite any other agreements that may be in place). In maintaining a consistent approach, the Fund will seek to recover the deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor and all remaining assets and liabilities will then be subsumed by the guarantor.

The Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However, the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

In the event of parties unreasonably seeking to crystalise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities the basis of assessment on termination will assume the liabilities are orphaned and thus the minimum risk basis will apply.

[An employer may continue to participate in the Fund with no contributing members and utilise the "Deferred Debt" Arrangements at the sole discretion of the Administering Authority which will be subject to a satisfactory covenant review on an ongoing basis. In this circumstance they will be treated as per any other participating employer in relation to overall funding strategy (including potentially requiring a final exit payment at some point) allowing for the covenant.]

[Drafting Note – This section has been adjusted following the consultation published by the MHCLG on 8 May 2019 (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

5. Insurance arrangements

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

CONTENTS

APPENDICES

1

INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

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

BENEFITS

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

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

EMPLOYER / EMPLOYEE CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations.

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

PRIMARY RATE

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

The Primary rate for each employer is specified in the rates and adjustments certificate.

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

SECONDARY RATE

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

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

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

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the total amount in respect of cash adjustments.

2

PURPOSE OF FSS IN POLICY TERMS

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

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

The purpose of this Funding Strategy Statement is therefore:

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

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

3

AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

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

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

4
RESPONSIBILITIES OF THE KEY PARTIES

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

KEY PARTIES TO THE FSS

The **Administering Authority** should:

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

The **Individual Employer** should:

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

- Understand the pensions impacts of any changes to their organisational structure and service delivery model.
- Understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in employer paying higher contributions than otherwise would be the case if the data was of high quality.

The **Fund Actuary** should:

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

5
SOLVENCY FUNDING TARGET

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

SOLVENCY AND LONG TERM COST EFFICIENCY

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

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

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

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

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

Underlying these assumptions are the following two tenets:

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

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

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

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

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation.

Individual employer contributions will be expressed and certified as two separate elements:

- the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits / ill-health premiums.
- the **Secondary rate**: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit (including phasing adjustments).

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to review from 1 April 2023 based on the results of the 2022 valuation.

Where an employer is in a surplus position, the Secondary rate deduction from the Primary rate will be subject to a minimum threshold of £100, below which no deduction will be made.

DEFICIT RECOVERY PLAN

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

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

The Administering Authority does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength.

The key principles when considering deficit recovery are as follows:

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

- Subject to consideration of affordability, for scheduled and resolution bodies, and those admission bodies (not operating outsourced services) backed by a scheduled body guarantee, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation (subject to a maximum of 16 years). This is to target full solvency over a similar (or shorter) time horizon. This is to maintain (as far as possible) equity between different generations of taxpayers and to protect the Fund against the potential for an unrecoverable deficit. The deficit recovery period will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.

- Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted. The average recovery period adopted by all employers will be set out within the Actuary's report. Employers will be notified of their individual deficit recovery period as part of the provision of their individual valuation results.

- Those admission bodies operating outsourced services under a contract which expires within the maximum 16-year recovery period, the recovery period to apply will be the lifetime of the contract unless the body is in surplus (see comment below).

- Due to their weaker covenant, admission bodies not backed by a scheduled body guarantee will be subject to the same conditions as above but subject to a maximum recovery period of 11 years unless their defined (or expected) lifespan within the Fund is limited. Such known (or expected) events that could impact on their participation in the Fund should be notified to the administering authority by the body as soon as practically possible.

- For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2023 based on the results of the 2022 actuarial valuation.

- Where an employer is in a surplus position, the Secondary rate deduction from the Primary rate will be adjusted to such an extent that any surplus is used (i.e. run off) over the maximum 16-year period unless agreed otherwise with the administering authority e.g. where the employer's participation in the Fund is expected cease within the next three years.

  Such deductions will be subject to a minimum threshold of £100 p.a., below which no deduction will be made. The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

- Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2019/20 may be implemented in steps depending on affordability of contributions as determined by the administering authority. This will be notified to employers as part of the valuation process. It may be possible to have a different phasing pattern in certain circumstances subject to the agreement of the administering authority.

- Where increases in the primary rate and/or secondary rate contributions are to be phased in, the Administering Authority's policy is that any adjustment in 2020/21 should be rectified in 2022/23 i.e. so that the total level of primary and secondary rate contributions payable is the same over the three-year period.

- However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.

- For employers that do not have a financial year end of 31 March 2020 (e.g. 31 July 2020), the Fund can, at the employers request before 28th February 2020 allow the employer to continue to pay their current contribution plan until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2020 if the year-end is 31 July 2020)

Special circumstances to consider alternative deficit recovery plans

- As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Administering Authority, restricted to the maximum periods set out in Appendix B, although employers will still be expected to at least cover expected interest costs on the deficit.

- It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

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

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

Ill-Health Captive

- For those employers who are eligible for the ill-health captive arrangement, the contributions payable over the period 1 April 2020 to 31 March 2023 will be adjusted accordingly to reflect the premium charged to provide continued protection against the risks of excessive ill-health retirement costs emerging. Further details are provided in Appendix F of these adjustments.

Prepayment of Primary Rate and Secondary Rate Contributions

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

- The facility to prepay secondary rate contributions where a deficit exists will be made available to all employers.

EMPLOYERS EXITING THE FUND

- Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will review their certified contribution in order to target a fully funded position at exit. The costs of the contribution rate review will be payable by the employer or the outsourcing Scheme Employer (where necessary).

- On the cessation of an employer’s participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances

  The policy for employers who have a guarantor participating in the Fund:

- The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

- If all parties do not agree then the surplus will be paid directly to the exiting employer within 3 months of completion of the cessation by the Actuary (despite any other agreements that may be in place). In maintaining a consistent approach, the Fund will seek to recover the deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor and all remaining assets and liabilities will then be subsumed by the guarantor.

- The Fund will inform the guarantor of the exiting employer’s request to receive the surplus before making payment of the exit credit. However, the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

- Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

- In the event of parties unreasonably seeking to crystalise the exit credit on termination unreasonably the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the basis on termination the basis of assessment will assume the liabilities are orphaned and the minimum risk basis of termination will apply.

The policy for employers who do not have a guarantor participating in the Fund:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of completion of the cessation by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

- The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

- Where an employer with no guarantor leaves the Fund and leaves liabilities with the Fund which the Fund must meet without recourse to that employer, the valuation of the termination payment will be calculated using a discount rate based on the minimum risk basis of termination.

Further details are set out in the termination policy is set out in Appendix C.

[Subject to sufficient financial covenant and at the sole discretion of the Administering Authority an employer may continue to participate in the Fund with no contributing members under the Deferred Debt arrangement.]

[Drafting Note – This has been added following the consultation published by the MHCLG on 8 May 2019 (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

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

ALTERNATIVE FUNDING TARGETS

In certain circumstances, as a pre-cursor to the Fund implementing a risk management framework involving investment buckets, a higher funding target may be adopted for certain employers as deemed appropriate by the Administering Authority. Initially this will be particularly applied to admitted body employers without a guarantor and will be used as a means of increasing the certainty of achieving or maintaining full funding.

The contribution rate for these employers will be determined to target a funding position of either 105% or 110% for the baseline liabilities. The principles around the recovery period will be as noted earlier after the change in funding target has been applied.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

All Employers are required to meet non ill-health early retirement strain costs arising on the grounds of redundancy / efficiency by immediate capital payments into the Fund.

FUNDING FOR ILL HEALTH RETIREMENT COSTS

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

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

- For those employers who don't participate in the ill-health captive, the "primary rate" payable over 2020/23 includes an allowance for ill-health retirement costs. Any ill-health retirement strain costs emerging will form part of the contribution rate assessment for the employer at the subsequent actuarial valuation (or termination assessment if sooner). No additional contributions will be due immediately from the employer.

FUNDING FOR DEATHS IN SERVICE

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

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

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

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

7

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

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

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

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

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of minus 1% per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of c60%. This is a measure of the level of reliance on future investment returns.

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

The overall strategic asset allocation is set out in the ISS and is as follows:

		Allocation %	Tolerance %
Bonds		**23.00**	
UK Index Linked		12.00	+/- 3.00
UK Buy and Maintain		5.00	+/- 2.00
Emerging Market High Return		3.00} 3.00} 6.00	} +/- 5.00
Quoted Equities		**50**	
UK		15.00	+/- 5.00
Overseas		35.00	+/- 5.00
	Developed Markets	27.125	+/- 5.00
	Emerging Markets	7.875	+/- 5.00
		35.00	
Illiquid Premium Private Equity Private Debt		**7.00** **3.50**	+/- 5.00 +/- 5.00
Infrastructure		**5.00**	+/- 5.00
Property		**10.00**	+/- 3.00
Cash		**1.50**	+/- 8.50
		100.00	

For the 2019 valuation, the investment return expectations as calculated by the Actuary equated to an overall best estimate average expected return of 2.65% per annum in excess of CPI inflation at the valuation date i.e. a 50/50 chance of achieving this real return For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations and this is expected under the Regulations and guidance. Broadly speaking the discount rate of CPI+1.5% p.a. has been set so that there is approximately a 66% (or two-in-three) chance that the returns achieved will be at least those assumed in the discount rate.

This margin however, has been reduced to take account of the risk management strategies implemented to reduce the volatility of returns within the investment strategy.

RISK MANAGEMENT STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority has implemented a number of risk management techniques. In particular:

- Equity Protection - the Fund has implemented protection against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability in employer contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality).

The principal aim of these risk management techniques is to effectively look to provide more certainty of real investment returns vs CPI inflation and/or protect against volatility in the termination position. It is designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates. The effect of these techniques has been allowed for in the 2019 actuarial valuation calculations and could have implications on future actuarial valuations and the assumptions adopted. Further details of the framework have been included in the ISS.

ALTERNATIVE INVESTMENT STRATEGIES

Within the next valuation cycle, the Fund will be considering the merits of implementing alternative investment strategies. Such strategies will have a lower level of growth assets compared with the current "higher risk" whole Fund strategy and will apply to certain employers in the Fund depending on their characteristics and objectives, as determined by the Administering Authority.

[Drafting Note – This paragraph has been added to enable the Fund to expand on the investment options that are offered to employers in the future if necessary. This would apply to employers who want to reduce/better manage their risk or if the Fund feels that they have insufficient covenant to continue with the risk associated with the higher risk investment strategy. Any options will be communicated to the Committee at that time. Once agreed, the Funding Strategy Statement will be updated to reflect this.]

The applicable investment strategy will be reflected in the relevant employer's notional asset share , funding basis and contribution requirements as assessed at subsequent actuarial valuations.

8

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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

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

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Protection and risk management policies fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

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

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

DEMOGRAPHIC

The demographic risks are as follows:-

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

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

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk. The Fund's ill health captive arrangement will also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members (see further information in **Appendix F**).

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**.

Early retirements for reasons of redundancy and efficiency do not immediately affect the solvency of the Fund because they are the subject of a direct charge.

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

INSURANCE OF CERTAIN BENEFITS

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

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme. Typically these would be via the Cost Management Process although in light of the McCloud discrimination case (see further comment in Section 9) there can be exceptional circumstances which give rise to unexpected changes in Regulations
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy.

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

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned,

- consultation took place with employers at the end of 2018 on a range of key issues and assumptions influencing the valuation process. These issues were also discussed at the 2018 Employer Forum.
- Copies of the draft Funding Strategy Statement were circulated to all employers during November 2019 for their comments and an invitation to comment was placed on the Fund's website.
- The Fund Actuary and Fund Officers presented details in relation to specific issues and changes at workshops for specific groups of employers and at the 2019 Employer Forum

The final Funding Strategy Statement was approved on 23rd January 2020Governance risks are as follows:-

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

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

PENSIONS AUTHORITY

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

Full details of the business of the authority including the meeting dates of the various Boards, minutes and agenda's, the contact details of the current Members and links to live webcasting of meeting can be [accessed through the Authority's website](https://www.sypensions.org.uk/Home/About-Us)
https://www.sypensions.org.uk/Home/About-Us

PENSIONS ADMINISTRATION STRATEGY

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

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

The strategy has been developed and adopted in consultation and agreement with the participating Fund Employers and is provided for through statute by Regulation 59 of the Local Government Pension Scheme Regulations 2013 (as amended). It sets out, amongst other things, how the

Administering Authority, SYPA, will administer the Pension Scheme and Fund on behalf of Employing Organisations, and their Scheme Members, participating in the South Yorkshire Pension Fund, its requirements for employers in terms of the timely and accurate provision of information pertinent to the administration of the Scheme and Fund, and the penalties to be applied to those employing organisations failing to meet their duties, responsibilities and obligations as detailed within the strategy document.

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

LOCAL PENSION BOARD

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

The Board seeks to assist the South Yorkshire Pensions Authority to maintain effective and efficient administration and governance. The LPB comprises both Scheme members, retired and active, together with employer representatives. Employer representation is not restricted to the four large local Councils.

It meets quarterly and all Board Members have undertaken training and have established a work programme that will enable them to meet their obligations to ensure that the Fund complies with the relevant codes of practice and current legislation.

The Board is now supported by an Independent Adviser in order to ensure that it can provide effective challenge to the Authority and its officers.

9
MONITORING AND REVIEW

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

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

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

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

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

REVIEW OF CONTRIBUTIONS

In line with the Regulations, the Administering Authority has the ability to review employer contributions or request a full interim valuation. If considered appropriate, the Fund will carry out an interim valuation or a review of contributions for a specific employer or employer(s), if there:

1. has been a significant change in market conditions and/or deviation in the progress of the Funding Strategy,
2. has been a material change in an employer's covenant assessed in line with the policy in Appendix E.
3. the employer has notified the Fund of their intention to exit within the next 3 years. Employers must notify the Fund as soon as they become aware of their planned exit date.
4. has been a deviation in the progress of the funding strategy for the employer.
5. have been significant changes to the Scheme membership, or LGPS benefits.
6. has been a change in employer status.
7. have been any significant special contributions paid into the Fund.
8. have been significant statutory or regulatory changes.

In the normal course of events, contributions will only be reviewed for statutory or tax raising employers as part of a full actuarial valuation (statutory or interim valuation).

In exceptional circumstances, not envisaged in the Funding Strategy Statement, the Fund can apply for a direction from the Secretary of State to carry out an interim valuation. The Secretary of State would also have a power to require interim valuations of the Fund either on representation from the Fund, scheme employers or of his own volition.

Where the contribution review is triggered by an employer request (e.g. points 2, 3, 4, 5, 6 and 7 above), the costs associated with the review will be met by the employer(s) concerned.

COST MANAGEMENT THE McCLOUD JUDGMENT

The cost management process was set up by the Government, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

The Government have confirmed that this judgment will result in a remedy being required for the LGPS. The Scheme Advisory Board issued guidance which sets out how the McCloud case should be allowed for within the 2019 valuation.

The potential impact of the judgement (based on the information available at the time) has been quantified and communicated to employers as part of the 2019 valuation. This has been assessed by removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. In effect this represents a worst case scenario in relation to those who were active as at 1 April 2012 (i.e. ignoring new joiners) and is therefore a prudent estimate of the impact. Employers will be able to choose to pay these estimated costs over 2020/23 in their certified contributions. Alternatively, they will need to make provision within their budgets.
If a definitive judgment is made before the 2022 valuation then for employers who chose not to incorporate the impact in their contributions backdated contributions will be collected immediately. The mechanism to achieve this has been set out in the Actuary’s certificate. For other employers any difference between the contributions collected and the actual cost will be adjusted in the 2022 valuation.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

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

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET AND COST OF FUTURE ACCRUAL

Investment return (discount rate) – Solvency Funding Target

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 1.5% per annum above CPI inflation i.e. a real return of 1.5% per annum and a total discount rate of 3.9% per annum. This real return will be reviewed from time, to time, typically at the time of a formal valuation or bond review based on the investment strategy, market outlook and the Fund's overall risk metrics. The discount rate will be reviewed as a matter of course at the time of a formal valuation.

For those employers for whom the Administering Authority deems an alternative funding target should apply, a 5% or 10% loading will be applied to the baseline liabilities determined using the discount rate above, as deemed appropriate.

Investment return (discount rate) – Cost of Future Accrual

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

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

The financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.35% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.75% per annum.

Inflation (Consumer Prices Index)

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

The overall average reduction to the assumption to long term RPI inflation to arrive at the CPI inflation assumption at the valuation date is 1.0% per annum. The CPI inflation assumption at the valuation date is 2.4% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for employers The default assumption is for pay growth of 3% (covering both headline increases and incremental drift) each year from the valuation date up to 31st March 2023 although employers will be able to opt for the long-term assumption only should they wish.

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Administering Authority but as a minimum must be reasonable and practical. Employers will need to provide clear evidence that justifies any bespoke assumptions (for example a long-term pay agreement) To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension increases/Indexation of CARE benefits

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

For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary.

A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2018 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2018 projections and a long term improvement trend of 1.75% per annum.

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

Commutation

Based on scheme specific analysis undertaken over a long period, it has been assumed that, on average, retiring members will commute pension up to 90% of the maximum tax-free cash available at retirement (allowing for any standard 3/80ths cash sum that may be payable). The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

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

EMPLOYER ASSET SHARES

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

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

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share may be restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE “PRIMARY RATE”) FOR THE 2019 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	[3.40%] p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	[3.90%] p.a.
CPI price inflation	[2.40%] p.a.
Long Term Salary increases*	[3.65%] p.a.
Pension increases/indexation of CARE benefits	[2.40%] p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	[4.75%] p.a.
CPI price inflation	[2.40%] p.a.
Long Term Salary increases*	[3.65%] p.a.
Pension increases/indexation of CARE benefits	[2.40%] p.a.

* in addition to this, an allowance for further short-term pay restraint may be made. This will be in the range of 2% per annum to 3% per annum for 4 years to 31 March 2023 depending on an employer’s circumstances.

Life expectancy assumptions

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

-Post retirement mortality tables

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	101% S3PMA_CMI_2018 [1.75%] 88% S3PFA_M_CMI_2018 [1.75%]
	Dependant	133% S3PMA_CMI_2018 [1.75%] 89% S3DFA_CMI_2018 [1.75%]
	Ill Health	125% S3IMA_CMI_2018 [1.75%] 122% S3IFA_CMI_2018 [1.75%]
	Future Dependant	128% S3PMA_CMI_2018 [1.75%] 107% S3DFA_CMI_2018 [1.75%]
Active	Normal Health	109% S3PMA_CMI_2018 [1.75%] 90% S3PFA_M_CMI_2018 [1.75%]
	Ill Health	125% S3IMA_CMI_2018 [1.75%] 139% S3IFA_CMI_2018 [1.75%]
Deferred	All	131% S3PMA_CMI_2018 [1.75%] 105% S3PFA_M_CMI_2018 [1.75%]

Future Dependant	Dependant	137% S3PMA_CMI_2018 [1.75%] 113% S3DFA_CMI_2018 [1.75%]

-Life expectancies at age 65

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.4	25.6
Actives aged 45 now	23.8	27.5
Deferreds aged 45 now	22.4	26.4

Further detail and other demographic assumptions are set out in the Actuary's formal report.

APPENDIX B – EMPLOYER DEFICIT / SURPLUS RECOVERY PLANS

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

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and will increase at 2.4% p.a. (unless agreed with the Administering Authority). It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

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

The principles used to determine the recovery periods is summarised in the table below. These will be used to derive the minimum contributions payable subject to reasonable affordability and covenant assessment. In some cases, the actuary may recommend a higher deficit contribution for 2020/23.

Category	Maximum Deficit Recovery Period	Derivation
District Councils	16 years	Determined by reducing the period from the preceding valuation by at least 3 years
Other Tax-raising Scheduled and Designating Bodies	16 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure, where appropriate, total contributions do not reduce versus the current contributions from the existing recovery plan.
Academies and Multi-Academy Trusts	16 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure, where appropriate, total contributions do not reduce versus the current contributions from the existing recovery plan.
Higher and Further Education Bodies (Universities and Colleges)	16 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure, where appropriate, total contributions do not reduce versus the current contributions from the existing recovery plan.
Community Admission Bodies (guaranteed by another Scheme Employer within the Fund)	16 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure, where appropriate total contributions do

		not reduce versus the current contributions from the existing recovery plan.
Community Admission Bodies (with no guarantee),	11 years	Determined by reducing the period from the preceding valuation by at least 3 years (unless the expected participation in the Fund is known and is shorter) and to ensure, where appropriate, total contributions do not reduce versus the current contributions from the existing recovery plan.
Transferee Admission Bodies (guaranteed by the letting Scheme Employers)	16 years	Deficit recovery period to be limited to the lifetime of the contract. For those employers in surplus, the maximum recovery period may apply unless the contract is expected to expire in the next three years.

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

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

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

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

For any employers assessed to be in surplus, their individual contribution requirements may be adjusted to such an extent that any surplus is unwound over a maximum 16 year period unless agreed with the Administering Authority (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers and managing risk in the intervaluation period, the Administering Authority will exceptionally consider the use of contingent assets (for example a charge on a property) and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, restricted to a maximum period of 16 years, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

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

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

APPENDIX C - ADMISSIONS AND TERMINATION POLICY

ENTRY TO THE FUND

MANDATORY SCHEME EMPLOYERS

Certain employing bodies are required to join the scheme under the Regulations.   These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Academies also fall under this category.

DESIGNATING BODIES

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

ADMISSION BODIES

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

Admitted bodies can join the Fund if

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

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

[JOINING THE FUND VIA THE 'DEEMED EMPLOYER' ROUTE

This is an alternative route to the admitted body route for achieving pension protection. It relates to employers which have employees working for a third party but fall under the deemed employer for the purposes of the Regulations.

It will be the outsourcing Scheme Employer's choice, when initially putting the contract out to tender, whether the Admission Agreement or Deemed Employer approach will be used. The outsourcing scheme employer will be also known as the deemed employer with regard to this admitted body.

If the Deemed Employer route is chosen, the admitted body will not join the Fund and will instead be grouped/pooled with the original scheme employer. This may be used when a pass through arrangement has been agreed.

The Fund's policy will be dependent on the deemed employer's policy and approach to dealing with these outsourcings. This makes it imperative that each outsourcing scheme employer has a clear policy on the treatment of each type of admitted body. The Fund also requires an agreement (similar to the admission agreement) with the admitted body to ensure their duties are fulfilled e.g. payment of contributions.]

[Drafting Note – This has been added following the consultation published by the MHCLG on 10 January 2019 (found here: https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

CONNECTED ENTITIES

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

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

However, to limit the risk to the Fund, the Fund will require that the scheme employer provides a guarantee for their connected entity, in order that the ongoing funding basis will be applied to value the liabilities.

CHILDREN'S CENTRE TRANSFER TO ACADEMY TRUSTS

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

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

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

[Drafting Note – This section will potentially need amending when the outcome of the consultation published by the MHCLG on 10 January 2019 is known (found here: https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection).]

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

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

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

LGPS REGULATIONS 2013: SCHEDULE 2 PART 3, PARA 8

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

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

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

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

(c) a person who—

(i) owns, or

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

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

ILL-HEALTH CAPTIVE

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

- Academies
- Admitted Bodies formerly known as Community Admission Bodies
- Designating / Resolution Bodies
- Transferee Admission Bodies
- All other bodies with less than 100 members

EXITING THE FUND

INTRODUCTION

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

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

TERMINATION POLICY

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

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

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

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

When an employer exits the Fund the Regulations give power to the Fund to set a repayment plan to recover the outstanding debt over a period at its sole discretion and this will depend on the affordability of the repayments and financial strength of the exiting employer. Once this repayment plan is set the payments would not be reviewed for changes in the funding position due to market or demographic factors.

*[Drafting Note – "*Unless agreed otherwise *" has been added following the consultation published by the MHCLG on 8 May 2019 as it is possible employers could continue to participate in the Fund with no active members which is commonly referred to as an deferred debt arrangement (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed. This is distinct from an employer exiting the Fund and agreeing a repayment plan.]*

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

- The default position is for exit payments and exit credits to be paid immediately in full unless.
- At the discretion of the administering authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.
- Any costs associated with the exit valuation will be paid by the employer by either increasing the exit payment or reducing the exit credit by the appropriate amount. In the case of an employer where the exit debt/credit is the responsibility of the original employer through a risk sharing agreement the costs will be charged directly to the employer unless the original employer directs otherwise.

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

BASIS OF TERMINATION

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

Under the "minimum risk" basis of termination the discount rate assumption used will be derived to be consistent with a lower risk investment strategy linked to low risk income generating assets such as bonds. At the 2019 valuation date the discount rate adopted would have been 1.5% per annum. The "minimum risk" assumptions will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date. This is subject to the financial assumptions used being no less cautious than the equivalent valuation assumptions updated appropriately based on the advice of the actuary.

In addition to using a more cautious discount rate, the Actuary will also use a more cautious mortality assumption when assessing the size of the liabilities for termination purposes. In particular, the Actuary will assume a higher improvement rate for future improvements to life expectancy than is used for ongoing funding purposes. Where it is appropriate to apply a more cautious assumption the Actuary will assume that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumption will build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 2% per annum for males and females, compared to 1.75% per annum used in the 2019 valuation for ongoing funding and contribution purposes.

[Drafting Note – in the light of recent mortality trends emerging, and also the September announcement on the change in RPI inflation (and consequently the RPI/CPI gap), the assumptions applying in the minimum risk termination basis will be reassessed in due course.]

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

[Subject to sufficient financial covenant and at the sole discretion of the Administering Authority an employer may continue to participate in the Fund with no contributing members under the Deferred Debt arrangement.]

[Drafting Note – Wording has been added following the consultation published by the MHCLG on 8 May 2019 (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf).

The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

IMPLEMENTATION

ADMISSION BODIES PARTICIPATING BY VIRTUE OF A CONTRACTUAL ARRANGEMENT

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit. This is subject to the agreement of all parties involved (i.e. the Fund, the exiting employer and the guarantor) who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree then the surplus will be paid directly to the exiting employer within 3 months of completion of the cessation by the Actuary (despite any other agreements that may be in place). In maintaining a consistent approach, the Fund will seek to recover the deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor and all remaining assets and liabilities will then be subsumed by the guarantor.

The Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However, the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

In the event of parties unreasonably seeking to crystalise the exit credit on termination unreasonably the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the basis on termination the basis of assessment will assume the liabilities are orphaned and the minimum risk basis of termination will be applied.

As the guarantor will absorb the residual assets and liabilities, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious minimum risk basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs the exiting employer would then be treated as if it had no guarantor as per the policy below.

NON CONTRACT BASED ADMISSION BODIES WITH A GUARANTOR IN THE FUND

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

ADMISSION BODIES WITH NO GUARANTOR IN THE FUND

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

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

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of completion of the cessation by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

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

[EMPLOYERS THAT JOINED VIA THE 'DEEMED EMPLOYER' ROUTE

In the event of cessation, the assets and liabilities will remain with the outsourcing scheme employer and no termination assessment or payment will be required.]

[Drafting Note – This has been added following the consultation published by the MHCLG on 10 January 2019 (found here: https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection).
The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

CONNECTED ENTITIES

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

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

RELEVANT REGULATIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013 (AS AMENDED BY THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018)

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

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

- a revision of any rates and adjustments certificate for any Pension Fund which is affected, showing the exit payment due from the exiting body or exit credit payable to the exiting body.

Where it is not possible for any reason to obtain revised contributions from the exiting body, or from an insurer or any person providing an indemnity or bond on behalf of the body, the Administering Authority may obtain a further revision of any rates and adjustment certificate for the Pension Fund, showing –

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

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

If the Administering Authority becomes aware or is of the opinion of a Scheme employer becoming an exiting employer, Regulation 64 (4) provides that it may obtain from an actuary a certificate specifying, in the case of an admission body, the percentage or amount by which, in the actuary's opinion -

- the contribution at the primary rate should be adjusted, or

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

APPENDIX D - ACADEMIES / MULTI-ACADEMY TRUSTS

ACADEMY CONVERSIONS AND DEFICIT TRANSFERS

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

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

If the contribution rate for a local authority does not include any allowance for deficit funding contributions at the point at which a school converts to academy status, then no deficit will be allocated to the academy at the point of conversion.

MULTI ACADEMY TRUSTS

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

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

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

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

APPROACH TO SETTING CONTRIBUTION RATES

The South Yorkshire Pension Fund must have a separate employer number for each academy for transparency of cashflows, managing risks should an academy need to leave one Trust for another and for accounting reporting where disaggregated disclosure reports are required. It should also be noted that, at the present time, the Department for Education (DfE) have confirmed that guarantee relates to individual academies and MATs.

As commented above, unless requested otherwise by the MAT, the Fund's policy is that the actuary will certify a common primary rate for all the academies within the MAT bearing in mind that the risks of under and over payments will be shared by all academies in the MAT pool. The Fund has requested confirmation from the DfE that the guarantee extends to MATs. In the event that MATs are not guaranteed, the Fund will review any option for MATs to have a common primary rate.

The past service deficit will still be assessed at an individual academy level so that it only relates to the staff of the respective academy. The ceding local authority requires a corresponding adjustment for the share of the deficit that transfers on conversion therefore individual academy figures will be required. In line with the approach adopted for the Primary Rate, the Fund's policy is that the actuary will certify a combined secondary rate for all academies within the MAT unless requested otherwise by the MAT.

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

For any academies who exit a MAT pool during the inter-valuation cycle, the MATs secondary rate contributions will be adjusted at the point of exit, based on the outcomes for the exiting academy at the most recent actuarial valuation.

OUTSOURCINGS BY MULTI ACADEMY TRUSTS

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

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

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

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

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

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

APPENDIX E – COVENANT ASSESSMENT AND MONITORING POLICY

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

An assessment of employer covenant focuses on determining the following:

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

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

RISK CRITERIA

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

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

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

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

ASSESSING EMPLOYER COVENANT

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

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

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

FREQUENCY OF MONITORING

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

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

COVENANT RISK MANAGEMENT

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

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

APPENDIX F – ILL-HEALTH CAPTIVE INSURANCE ARRANGEMENT

OVERVIEW

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

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into a captive fund which is tracked separately by the Fund Actuary in the valuation calculations.
- The captive fund is then used to meet strain costs emerging from ill-health retirements i.e. there is no impact on funding position for employers within the captive
- Any shortfall in the captive fund is effectively be underwritten by all other employers within the Fund i.e. with potential for increases to their own contribution requirements at subsequent actuarial valuations to meet the shortfall. If any excess funds are built up in the Captive, some or all of those excess funds will be held in reserve to act as a contingency against future adverse experience at the discretion of the administering authority based on the advice of the actuary,
- Premiums payable subject to review from valuation to valuation depending on experience and included in employer rates.
- Over the longer-term, given the regular review of the premiums payable into the Captive fund there would be expected to be no net cost to those employers underwriting the Captive Fund in the long-term i.e. any fluctuations in their own contribution requirements arising from experience would smooth out over time.

EMPLOYERS

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

- Academies and former Grant Maintained Schools
- Admitted Bodies formerly known as Community Admission Bodies
- Designating / Resolution Bodies
- Transferee Admission Bodies
- Other scheduled bodies meeting certain criteria at the inception of the arrangement.
- All other bodies with less than 100 members

For all other employers who do not form part of the captive arrangement, the any costs associated with ill-health retirements will emerge as part of subsequent actuarial assessments.

The Fund and the Actuary will also monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

PREMIUM REVIEW

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

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

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

APPENDIX G - GLOSSARY

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

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

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

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

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

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

Contingent Assets: assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

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

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

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

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

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

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

Equity Protection: an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit: the amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

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

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

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Appendix A

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

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