

SOUTH YORKSHIRE PENSIONS AUTHORITY

10 DECEMBER 2020

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

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

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), G Graham
(Director), M McCarthy (Deputy Clerk), G Richards (Senior Democratic
Services Officer), S Smith (Head of Investments) and G Taberner
(Head of Finance and Corporate Services)

J Firth and A Stone (Border to Coast Pensions Partnership Ltd)

Apologies for absence were received from Councillor A Law, N Copley
and G Kirk

1 APOLOGIES

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

2 ANNOUNCEMENTS

G Graham announced that colleagues at Border to Coast had won two awards at the recent LAPF Investment awards. One was for Pool of the Year and the other for collaboration.

3 URGENT ITEMS

None.

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

RESOLVED – That items 18, the appendix to item 11 and item 19, the appendix to item 12 be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 MINUTES OF THE AUTHORITY MEETING HELD ON 30 SEPTEMBER 2020

RESOLVED – That the minutes of the meeting held on 30th September 2020 be agreed as a true record.

7 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

Cllr Mounsey reported that Doncaster MBC had welcomed the Authority's decision to aim for its investment portfolios to be net zero in terms of carbon emissions by 2030.

8 PROGRAMME OF AUTHORITY MEETINGS 2021/22

A report was submitted which proposed a schedule of Authority meetings for 2021/22.

RESOLVED – That the proposed schedule of Authority meetings be approved.

9 QUARTER 2 CORPORATE PERFORMANCE REPORT

G Taberner presented the Corporate Performance report for Quarter 2 which provided an update on a range of the Authority's corporate indicators.

Section 3 detailed progress being made on various plans within the Corporate Strategy. It was noted that sickness absence overall remained lower than previous years but was being monitored regularly.

With regard to the budget, a large underspend was still being forecast which had resulted from the effects of the lockdown which had slowed progress on recruitment.

It was proposed that the full underspend would be transferred to the Capital Projects Reserve in order to meet the large one-off costs associated with the long-term accommodation project, the business systems project and the procurement exercise in relation to the pensions administration system.

The Risk Register was included within the report and section 5 detailed the changes made after the last review in October.

Pensions Administration performance was being maintained and whilst it remained below the target times set, customers remained satisfied and recent survey results were good.

Members discussed the need for a stable membership in the coming years. It was acknowledged that this was out of the Authority's control. The Director had written to the Leaders regarding this and s41 members were encouraged to further discuss the matter with their Leader.

RESOLVED – That the report be noted.

10 APPROVAL OF THE LEVY FOR 2021/2022

A report was considered which requested approval for the 2021/22 Levy under the Levying Bodies (General) Regulations 1992.

The 2021/22 Levy had been calculated as £361,000, a reduction of £54,000 compared to the 2020/21 Levy.

The estimated apportionment of the 2021/22 Levy to each district council, based on the 2020/21 Council Tax Base shares, was detailed within the report. It was noted

that the actual apportionment would be re-calculated to reflect the approved 2021/22 Council Tax Base figures for each district as soon as this information was available.

RESOLVED – That Members approve a total Levy of £361,000 for 2021/22 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 2021/22.

11 LONGER TERM ACCOMMODATION OPTIONS

A report was submitted which sought to secure approval for the implementation of the results of the exercise conducted to identify a solution to meet the Authority's longer term accommodation needs.

Members were reminded that the Authority's move to Gateway Plaza in December 2018 had been imposed upon them by the landlord's decision to use the Regent Street site in a different way. Although Gateway offered better quality accommodation on reasonable commercial terms, in making the decision to move, the Authority had determined to commission work to examine its longer term accommodation requirements.

It was noted that the current lease had a break exercisable with six months' notice at December 2021 and the Corporate Strategy included a project to identify options for meeting the Authority's longer term needs in order to inform the strategy for dealing with the break.

As the Authority did not have the technical expertise internally to identify and appraise options for this sort of project, a procurement process was undertaken with the assistance of BMBC using a national consultancy framework which resulted in the appointment of FMG Consulting and GT3 Architects.

The options had been developed using factors which were detailed within the report and engagement with staff and managers through workshops and questionnaires.

A short list of three options had been identified:

- Option 1 – Additional space at Gateway Plaza to take the whole of the 8th floor – lease.
- Option 2 – Oakwell House, Barnsley – whole building – lease.
- Option 3 – 18 Regent Street – acquisition of a cleared site and purpose built new build – freehold.

As set out in the confidential appendix to the report, other options were ruled out on various grounds including the amount of space available and location.

Financial modelling had been undertaken on each of the options along with a set of criteria that had been developed from the brief and engagement with Authority staff; these had been used to provide a weighted score for each option. The results were

shown within the report. In addition to the evaluation, a graphic within the report summarised the pluses and minuses of each option.

The results of the evaluation showed that Option 2, Oakwell Hose scored significantly better than the other options and it was recommended that officers be authorised to negotiate a long-term lease on the premises with an option to purchase should the landlord wish to sell.

G Graham informed Members that, as the site was out of the town centre, a travel plan would be developed to minimise car use and reduce the Authority's environmental footprint.

In answer to a question from Cllr Yasseen, G Graham reported that there was no suitable buildings to buy, rather than lease, in the area at the current time.

In answer to a question from Cllr Murphy, he also confirmed that the building had full disabled access.

RESOLVED – That Members:

- i) Endorse the preferred option identified in the appraisal exercise.
- ii) Authorise officers to undertake negotiations to secure the preferred option within the revenue cost estimates as set out in the body of the report.
- iii) Authorise officers to agree an appropriate contribution from the Capital Projects Reserve of up to £782,000 for the fitting out of the preferred option to the Authority's specification including improvements to the environmental footprint and energy efficiency of the building.
- iv) Approve the serving of appropriate notices in relation to the Authority's current accommodation as and when appropriate.

12 PROCUREMENT OF NEW FINANCIAL SYSTEMS

A report was submitted which set out details of the procurement of replacement financial management and investment accounting systems, and to seek approval for next steps.

Members were reminded that the need to replace the Authority's business systems was set out within the Corporate Strategy. The report considered was concerned with the procurement of replacement financial management systems, a further report relating to the people systems (HR and payroll) would be brought to Members when options had been identified and evaluated.

The replacement of the investment accounting system was a requirement due to changes in the Authority's environment, the move to pooling and the impact this had in regards to reducing requirements in regards to processing and accounting for investment transactions.

With regard to the financial management system, an exercise was undertaken to research potential new systems and demonstrations of two suitable options were

arranged. The preferred option that was determined as a result of the evaluation was a system used by a number of local authorities and other public bodies.

The full details of the options and the evaluation were set out in the appendix which was attached as part of the private pack due to containing commercially sensitive information.

With regard to the investment accounting system, the in-house running of investments had reduced significantly and would reduce further as more assets were transferred to Border to Coast. This meant that the current system was too sophisticated, large scale and costly given the reduced requirements.

An exercise was undertaken the previous year to research the available options. The work identified that there was only one suitable alternative available, therefore approval was sought to waive the relevant contract standing orders to allow a direct award to the preferred supplier on the grounds that this was a specialist form of supply and that the available options had been evaluated.

The full details were set out in the appendix to the report.

RESOLVED – That Members:

- i) Note the procurement undertaken for a replacement Financial Management System using a direct award on the Crown Commercial Services G Cloud framework as set out in paragraphs 5.6 to 5.10 in the report.
- ii) Approve the replacement of the ICON investment accounting system as set out in paragraphs 5.11 to 5.14 of the report and approve a waiver of contract standing orders, on the grounds that this was a specialist supply, in order to facilitate the procurement.
- iii) Approve the release of an estimated £50,000 from the Capital Projects Reserve in 2021/22 in order to meet the one-off costs associated with implementation of both these systems.

13 ADVISORS COMMENTARY

A Devitt provided market commentary on recent events.

Highlights included:

- Markets had calmed with less volatility and growth stocks continued to dominate. The US led stock market strength, China's post-Covid growth shored up Asia while Europe and the UK continued to lag.
- Before the announcement of the extension to the furlough scheme in the UK to March 2021, the high street had seen numerous lay-offs and bankruptcies were rising both in Europe and the US.
- Stock markets reacted strongly to the announcement that two vaccines in development looked to be 90-95% effective. This sparked a 'rotation' in the stock market out of "stay at home" tech winners such as Netflix and Zoom into some of the more overlooked value stocks and even cruise lines and airlines.

- The UK GDP figures released in mid-November showed that UK GDP expanded by 15.5% in the third quarter but slowed significantly in September suggesting that there was likely to be a further dip in the fourth quarter.
- The Covid-19 crisis had accelerated certain trends in real estate such as a shift from high street to online retail and soaring demand for industrial and logistics properties.

The Chair thanked A Devitt for the update.

14 QUARTER 2 PERFORMANCE REPORT

Members considered the Quarter2 Performance Report to 30th September 2020.

S Smith informed Members that the September valuation came in at just over £9.1bn and since then markets had been strong and the Fund was now at approximately £9.4bn.

The main transactions over the quarter had been a reduction in UK equities of £230m and was now in line with the benchmark weighting. £100m had been invested across alternative funds, £40m of that was into listed funds, the remainder being draw-downs into committed funds.

Looking at the Fund overall, performance was slightly behind the benchmark at 0.8% against an expected 0.9%.

The funding level remained above 100% and based on current valuations was approximately 105%.

The report also gave details of four Border to Coast funds, three of which had outperformed since inception.

Since the quarter end Border to Coast had launched their inflation-linked portfolio and SYPA had transitioned 10% of the fund into this in October.

With regard to property, hopefully two acquisitions would be finalised before Christmas, one was a supermarket and the other a business park.

Cash levels had reduced to around £245m and would be below £200m by the end of December if the property acquisitions went through.

RESOLVED – That the report be noted.

15 BORDER TO COAST PRESENTATION

The Chair welcomed Andrew Stone from Border to Coast to the meeting.

A Stone gave a presentation which included:

- An update on the Border to Coast team.
- A market update for Q3 2020
- An investment update including:
 - Sterling Investment Grade Credit Fund

- UK Listed Equity Fund
- Overseas Developed Markets Equity Fund
- Emerging Markets Equity Fund
- Alternative Assets

The Chair thanked A Stone for his informative presentation.

16 ANNUAL REVIEW OF THE BORDER TO COAST RESPONSIBLE INVESTMENT POLICIES

A report was submitted which sought to gain approval for the collaborative policies in relation to Responsible Investment and Voting Guidelines to be used by Border to Coast over the next 12 months.

Members noted that the documents remained broadly unchanged with additional clarifications in a number of areas. There were, however, substantial steps in some areas which supported the Authority's overall policy position including:

- Stronger actions to oppose political donations by companies;
- Stronger actions where Boards were not seen to be promoting diversity;
- Stronger actions (including voting against reappointment of the Chair) at companies not making progress in adapting their business to a low carbon economy; and
- A commitment that Border to Coast would develop a specific policy in relation to climate change.

G Graham informed Members that this year the review cycle for Border to Coast policies and the Authority's policy in this area had become misaligned. This meant that the significant changes to the Authority's position on climate change agreed at its last meeting had not been able to be fed into the development of Border to Coast's policies.

J Firth, Head of Responsible Investment at Border to Coast updated Members on the work being done in the responsible investment area and the planned work on the Climate Change Policy which would be developed with the Partner Funds.

RESOLVED – That Members approve the Border to Coast Responsible Investment Policy and Voting Guidelines at Appendices A and B to the report.

17 QUARTER 2 RESPONSIBLE INVESTMENT UPDATE

A report was considered which provided an update on Responsible Investment activity during July-September 2020.

The report detailed the number of meetings voted and votes cast during the period and votes for and against management.

The main areas where votes were cast against management or where resolutions were opposed were:

- In the UK a number of votes against the authorisation of political donations in line with the Border to Coast voting guidelines.

- In the UK a significant number of votes against the re-appointment of auditors on the grounds that the auditor had been in place too long.
- In all markets votes against executive pay proposals deemed excessive and against the re-appointment as directors of Chairs of nomination committees on the grounds of lack of Board diversity.

The report also detailed engagement and collaboration during the period.

RESOLVED – That the report be noted.

18 ANNUAL REVIEW OF THE GOVERNANCE COMPLIANCE STATEMENT

A report was submitted which sought approval for the annual update to the Authority's Governance Compliance Statement.

Attached as Appendix A to the report was an updated version of the Governance Compliance Statement for approval. The changes from the previous version were principally to provide more consistent terminology and to clarify wording which was previously not as clear as would be desirable. There had been no changes to the assessment of the degree of compliance.

RESOLVED – That the revised Governance Compliance Statement is approved.

19 REPORTING OF URGENT DECISIONS TAKEN BETWEEN MEETINGS

A report was submitted to inform the Authority of decisions taken since the last meeting using the urgent business procedure set out in the Constitution.

Members were reminded that the Urgent Business procedure relied upon the Chair to make a specific decision on behalf of the Authority in consultation with the s41 members. Since the last meeting two circumstances had arisen where it had been necessary to use the procedure. These were detailed within the report and links provided to the specific decision reports.

RESOLVED – That the report be noted.

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 APPENDIX TO ITEM 11 - LONGER TERM ACCOMMODATION OPTIONS

Members considered a report by FMG Consulting in Partnership with GT3 Architects which detailed options for future accommodation options.

RESOLVED – That the report be noted.

21 APPENDIX TO ITEM 12 - PROCUREMENT OF NEW FINANCIAL SYSTEMS

Pensions Authority: Thursday 10 December 2020

The Authority considered a report which explored options for the procurement of replacement investment accounting and financial management systems.

RESOLVED – That the report be noted.

CHAIR