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NOTICE OF AUTHORITY MEETING

You are hereby summoned to a meeting of the South Yorkshire Pensions Authority to be held as a Virtual Meeting via Connect Remote on Thursday 21 January 2021 at 10.00 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
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Distribution

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

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SOUTH YORKSHIRE PENSIONS AUTHORITY

21 JANUARY 2021 AT 10.00 AM - VIRTUAL MEETING VIA CONNECT REMOTE

Agenda: Reports attached unless stated otherwise

	Item	Page
1	Apologies	
2	Announcements	
3	Urgent Items To determine whether there are any additional items of business which by reason of special circumstances the Chair is of the opinion should be considered at the meeting; the reason(s) for such urgency to be stated.	
4	Items to be considered in the absence of the public and press. To identify items where resolutions may be moved to exclude the public and press. (For items marked * the public and press may be excluded from the meeting).	
5	Declarations of Interest.	
6	Minutes of the Authority meeting held on 10 December 2020	1 - 10
7	Section 41 Feedback from District Councils	
	Corporate Matters	
8a	Corporate Strategy Update	11 - 36
8b	Pensions Authority Budget 2021/22	37 - 48
8c	Medium Term Financial Strategy 2021/22 to 2023/24	49 - 74
8d	Treasury Management Strategy	To Follow

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 <u>PROCUREMENT OF NEW FINANCIAL SYSTEMS</u>

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 <u>ADVISORS COMMENTARY</u>

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

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

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Subject	Corporate Strategy Update	Status	For Publication
Report to	Authority	Date	21st January 2021
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham 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.

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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 the current Corporate Risk Register reflecting both what might be described as “usual” risks which exist in any Pension Fund environment 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 the second update in the current three year cycle.

5.2 Every aspect of the Authority’s work over the last 12 months has been fundamentally affected by the Covid-19 pandemic. By the time the vaccine roll out is estimated to have achieved some sort of critical mass (around Easter) the Authority’s staff will have been working at home for over 12 months, with some newer staff never having been into the office. While services have been maintained and many corporate strategy projects have progressed over the course of the year progress has generally been slower than planned and some of the significant investments intended in developing our staff have not progressed as HR resources and senior management attention have been focussed on more immediate issues. The impact of this can be seen in the development areas highlighted in the staff survey which appears elsewhere on the agenda for this meeting.

5.3 Given this context this update carries forward a number of projects from the previous update and reschedules completion of some longer term projects to reflect the impact of Covid-19 on the previously planned timelines. The agenda remains broadly the same with a focus on:

- Investing in the development of staff to ensure that we maximise the benefits achieved from the capabilities we already have including an emphasis on the development of management and supervisory skills.
- Investing in technology to improve our business processes and ensure that we are able to provide the best possible service to our customers, as well as ensuring that appropriate resources are available to support the delivery of projects of this sort.
- Delivering the changes to the investment strategy including the move to a net zero target.
- Meeting the requirements of changes in the regulatory framework such as the new stewardship code, and
- Delivering the Authority’s new accommodation as approved at the last meeting.

5.4 In addition specifically in response to the recommendations contained in the Hymans Robertson Governance Review an additional corporate objective has been added related to scheme funding. This does not necessarily reflect any change in emphasis but does provide greater transparency about what the Authority is seeking to achieve in this area.

5.5 The original intention had been to develop this update to the Corporate Strategy through a process of engaging as many staff as possible. Due to the impact of the pandemic this has not been possible and therefore there has been a focus on ensuring that as many of the messages from the staff survey as possible are reflected in the projects included in this update. It remains the intention to run as inclusive a process as possible next year which will represent the next major review point for the strategy. This activity will be scheduled for the autumn of 2021.

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

Director

Background Papers	
Document	**Place of Inspection**

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Corporate Strategy
2021/22 to 2023/24

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 and reflects what we have learnt from having to adapt the way in which we operate to the Covid-19 pandemic, and also the fact that we have not been able to make as much progress as we might like on some projects because of the prolonged period during which all of our staff have been working at home.

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 and continue to face our largest employers.

As a consequence of this our strategy over the next three years focuses on delivering 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.

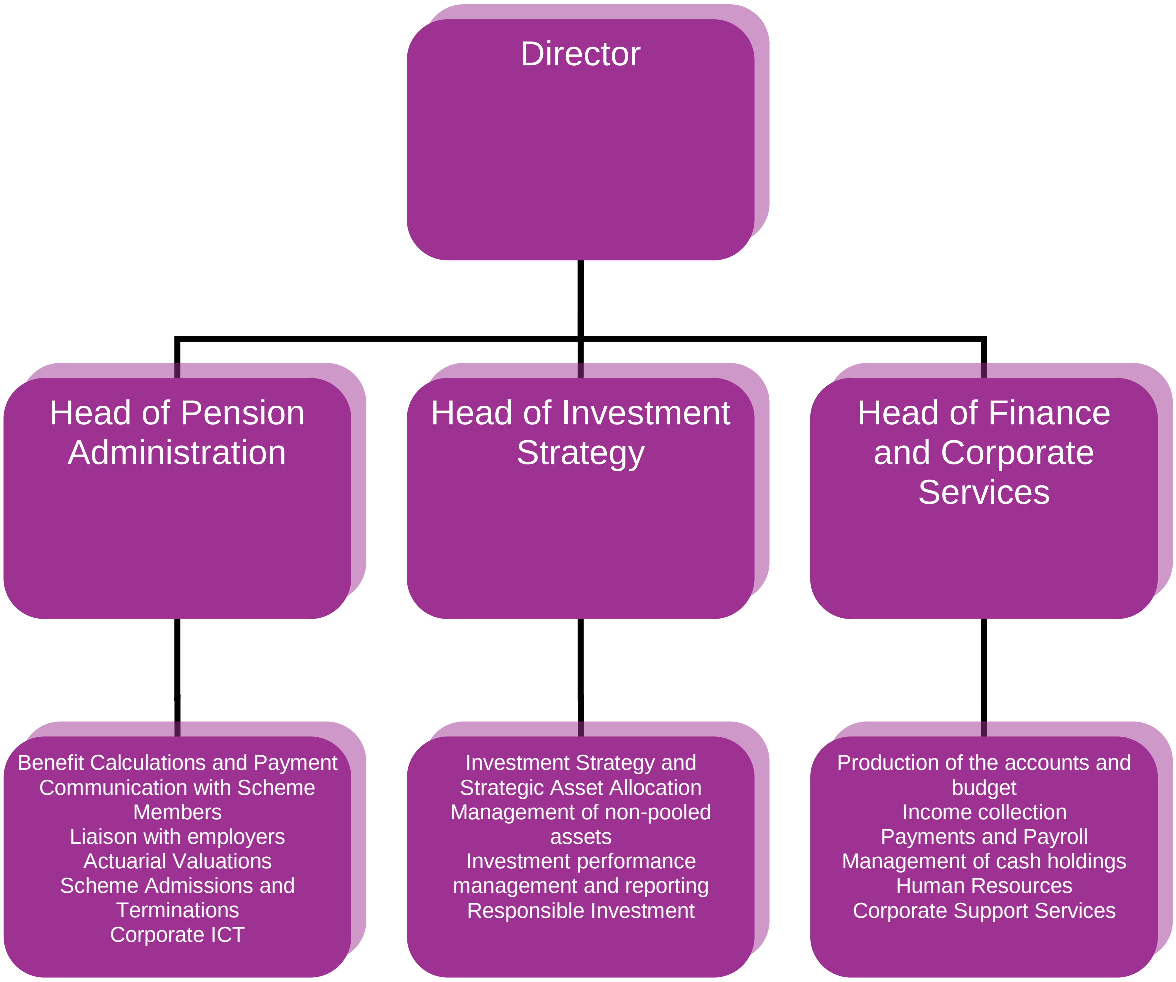
Cllr Mick Stowe
Chair
South Yorkshire Pensions Authority

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 LGPS 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 around 110 people (97.1 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 31.3.20)	161,477
Number of Pensioners Paid (at 31.3.20)	56,422
Number of Scheme Employers (at 31.3.20)	526
Proportion of employers that are local authorities	1.5%
Value of Assets under Management (31.3.20)	£8.170bn
Annual Value of Investment Income (2019/20)	£132m
Annual Value of Contributions to the Fund (2019/20)	£308m
Annual Value of Benefits Paid from the Fund (2019/20)	£308m

South Yorkshire is a big pension fund by any dimensions (within the top 10 LGPS funds by both assets under management and 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 over a long period and is now around fully funded.

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.

Scheme Funding

to maintain a position of full funding (for the fund as a whole) combined with stable and affordable employer contributions on an ongoing basis.

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 reviews of the investment strategy.

The content of our plan is influenced by a number of things including:

- The ending of current contractual arrangements.
- Developments within the Local Government Pension Scheme and the wider pensions industry.
- Wider economic developments which can impact the investment strategy and the affordability of contributions for employers.
- Technological developments.
- Feedback from stakeholder groups, including scheme members, employers and our staff.

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 and Scheme Funding
- Supporting the Corporate Organisation – which is linked to the corporate objectives around Effective and Transparent Governance and Valuing and engaging our Employees.

This programme of work incorporates the need to address a number of things over which we have no choice such as the need to implement the changes in the pension regulations arising from various legal challenges related to discrimination on the basis of either age or gender. In themselves these represent a very significant volume of work which will run over a number of years.

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.

Ref	Project / Action	Corporate Objective	Timescale Start	Timescale Finish	Responsible Manager
Services to Scheme Members and Employers – Lead Head of Pensions Administration					
MS1	Complete procurement processes required for Pension Administration System in order to deliver: • Improved interface with employers including monthly data collection • Improved Member Self Service • Process automation	Customer Focus	December 2020	March 2022	Head of Pension Administration
MS2	Implement regulatory changes arising from the McCloud and Goodwin judgements and the GMP rectification process	Customer Focus	Oct 2020	March 2023	Head of Pension Administration
MS3	Clear residual backlog cases	Customer Focus	Feb 2020	July 2021	Benefits Team Manager
MS4	Put in place and deliver a project and communications plan to support the delivery of the 2022 valuation, taking into account lessons learnt from the 2019 process.	Listening to our stakeholders Scheme Funding	April 2021	Sept 2022	Support and Engagement Team Manager
MS5	Provide additional support to staff to maximise their effectiveness	Valuing and engaging our employees			
	• Providing opportunities for staff at the top of the career grade to develop their skills through secondment opportunities and participation in project work.		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 2022	Support and Engagement Team Manager
	• Implement a structured development programme for Pension Officers reaching to top of the career grade		Feb 2020	May 2021	Benefits Team Manager

Customer Service and Engagement – Lead Head of Pensions Administration					
CS1	Implement a new approach to employer engagement focused on structured support to employers to ensure they are meeting their statutory responsibilities in a timely manner and focusing on compliance.	Customer Focus	April 2020	March 2022	Support and Engagement Team Manager
CS2	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 Scheme Funding	March 2020	March 2023	Head of Investment Strategy
IS2	Implement revised approaches to reporting on the Authority's stewardship approach	Responsible Investment			
	• Adopt the revised FRC UK Stewardship Code and report in line with its requirements		April 2020	March 2022	Head of Investment Strategy
	• Develop a framework for reporting the impact of the Fund's investments against the UN Sustainable Development Goals		Feb 2020	March 2023	Director
IS3	Implement the Action Plan for Achieving Net Zero by 2030	Responsible Investment	March 2021	Progress to be reviewed annually to 2030	Director
IS4	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

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

CO1	Replace the Authority's Business Systems:	Effective & Transparent Governance			
	• Investment Accounting		Jan 2021	July 2021	Team Leader – Accountancy
	• Financials (including removal of cheque acceptance)		Dec 2020	Oct 2021	Team Manager – Financial Services
	• People Systems (HR, Payroll, Time and Attendance)		Jan 2021	Dec 2021	Head of Finance and Corporate Services
	• Committee Administration (own instance of Modern.gov)		March 2021	Sept 2021	Governance and Risk Officer
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			
	• Fully revised appraisal system ready to be incorporated into the new HR system		April 2020	March 2022	HR Business Partner
	• Introduce revised induction process and e-Learning approaches to support annual and refresher training programmes		Feb 2020	March 2022	HR Business Partner
	• Provide a structured learning programme to support the new Pension Officer Career Grade Scheme		Jan 2021	Dec 2021	Support and Engagement Team Manager
	• Create a structured programme to support the development of management and supervisory skills		Sept 2021	March 2022 and ongoing	HR Business Partner
CO3	Implement the recommendations arising from the Hymans Robertson review of governance, in order to be ready for the implementation of the Good Governance review	Effective and Transparent Governance	April 2020	March 2022	Director
CO4	Implement the preferred option for meeting the Authority's long term accommodation needs, including a policy framework to support homeworking.	Effective & Transparent Governance	Dec 2020	Dec 2021	Director

CO5	Replace website infrastructure to create a single web presence that better supports the orgainsation's communication and engagement strategies	Effective & Transparent Governance	Jan 2020	September 2021	Corporate Manager - ICT and Digital
CO6	Roll out Office 365 to ensure the Authority has access to a regularly updated suite of core application software across the whole estate	Effective and Transparent Governance	Jan 2020	December 2021	Corporate Manager - ICT and Digital
CO7	Introduce Agile Working approach across the whole organisation supported by a funded programme of hardware replacement	Effective and Transparent Governance	Jan 2020	March 2023	ICT Infrastructure Manager
CO8	Replace the Authority's telephony infrastructure with a VOIP system capable of integration with Teams / Office 365 and the Pension Administration system.	Effective and Transparent Governance	Sept 2020	March 2022	Corporate Manager- ICT and Digital
CO9	Incorporate within the Communications Strategy appropriate structured approaches to internal communication and external communication focussed on the wider local government and pension communities, as well as the conventional stakeholder groups such as scheme members and employers.	Effective and Transparent Governance	April 2021	January 2022	Communications Officer

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

All of the tasks that we need 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.
  Customer satisfaction is measured through surveys looking at a range of interactions (e.g. retirement, telephone contact etc.). While there are periodic up's and downs all these measures give a combined satisfied and very satisfied score over 90%.
- Meeting targets for the processing of transactions within specified timescales.
  Current processing performance (with all staff working at home) is below target at around 80% of the Authority's own standards which are generally more stretching than industry norms. While efforts are being made to improve this there is no evidence from increasing complaints or satisfaction surveys that the current position is causing an issue for customers.
- Retention of Customer Service Excellence accreditation
  This has been achieved for the next review cycle and the report is available on the Authority's website.
- Numbers of complaints and compliments
  The number of complaints remains very low in the context of both the number of scheme members and the number of customer interactions. Details are reported to each meeting of the Local Pension Board. There is no discernible trend in the numbers of complaints.
- Numbers of appeals against Authority decisions and the proportion upheld.
  Again the numbers of appeals against the Authority's decisions (as opposed to those of employers) is very low with none 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.
  This was achieved at the 2019 valuation with a funding level of close to 100%. Subsequent estimates indicate that full funding has been achieved and is being maintained.
- Achievement of stability in employer future service contribution rates.
  This will be measurable at the 2022 valuation. However, measurement will be complicated by the impact of scheme changes on the valuation process and setting of 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.
  2019/20 saw an overall reduction in the value of the Fund as a result of the market turbulence caused by the Covid-19 pandemic. Despite this the Fund performed better than the benchmark in the year and more importantly delivered positive returns in excess of the benchmark and CPI over 3, 5 and 10 years.
- Investment returns by asset class v the asset class specific benchmark
  This detail is included in the Authority's annual report and as would be expected there is variation across asset classes, although in general there is a positive picture.
- 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).
  After adjusting for the fact that equity dividends are now reinvested directly within pooled funds the overall level of income is increasing.

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
  This data is included in the Annual Report. Market turbulence at the end of 2019/20 distorted some of the metrics. However, there is a downward trend, albeit one that fairly closely mirrors the trend of the broader index.
- Achieve a rising ESG score from the equity portfolios and a position better than reflected in the benchmark indices.
  This is being achieved, although at present this analysis is not publicly available.
- Rate of progress towards achieving Net Zero Carbon emissions from the portfolio.
  This will be included within the annual TCFD and stewardship reporting which the Authority is required to produce and which is included in the annual report.

Scheme Funding

to maintain a position of full funding (for the fund as a whole) combined with stable and affordable employer contributions on an ongoing basis.

- Achievement and maintenance of full funding

  This is formally measured at the actuarial valuation every three years. The estimated position is currently that there is a surplus at fund level.

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.
  The latest final CEM report is not yet available but this has been achieved in previous years.
- Aim to maintain administration costs per member at a level less than the England Average (as measured in SF3)
  This is being achieved.
- Aim to maintain the total cost of running the Fund as a proportion of assets below the England and UK averages.
  This is not being achieved based on the comparison using SF3 data, however this is likely to be due to the significant inconsistencies in accounting practices relating to non-invoiced investment costs. The CEM benchmarking information which makes estimates in relation to under-reporting has previously indicated a relatively low cost position when adjusting for this under-reporting and should be regarded as more reliable.

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
  The overall level of sickness absence has declined during 2020/21.
- Aim to show an improving trend in staff engagement from staff survey data.
  The results of the Staff Survey carried out during 2020 show an improved level of engagement over 2018 (as shown in the infographic later in this document) but point to the need to address issues around career paths and role stimulation particularly for more experienced pension administration staff.
- Volume of training per member of staff (days).
  It is currently not possible to comprehensively measure this indicator. Comprehensive measurement will be available when the new HR system is implemented.
- Aim for 100% of staff to receive an appraisal.
  Due to the absence of an effective HR system it is currently not possible to provide comprehensive information on this indicator although the impression is that the position is improving gradually.

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

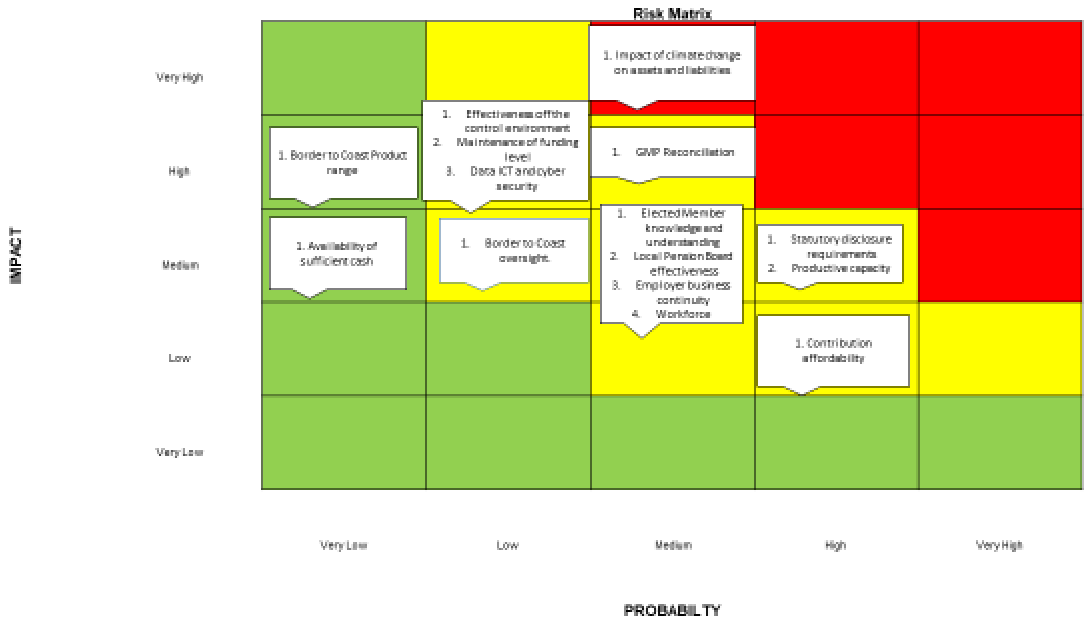
What are the things which might stop us from achieving our objectives?

These are the risks that something might go wrong. The chart below shows each of the risks included on our Corporate Risk Register as at December 2020 mapped on to the risk matrix which we use to understand how significant each risk is. The further towards the top right of the matrix a risk is the greater its significance for us.

We use four categories to classify risks

- Governance – These are risks that impact the soundness of our overall control and decision making framework.
- Investment and Funding – These are risks that impact the balance between the fund's assets and liabilities and the ability to pay pensions when they become due.
- Operational – These are risks to the effective running of the business and to efficient and effective service delivery.
- People – These are risks to our ability to maintain a suitably qualified, experienced and engaged workforce.

The risk register is reviewed on a monthly basis by the Senior Management Team and is also reviewed by the Authority as part of the quarterly performance reporting process. Additional oversight of the Authority's risk management arrangements is provided by the Audit Committee and Local Pension Board.
A summary of the register as reported to the December 2020 meeting of the Authority is shown below. The full risk register is available with the quarterly performance reports on the Authority's website.



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 (available on our website), 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 Director is accountable to the members of the Authority for spending within the budget. The table below provides a summary of the budget for 2021/22 and forecasts for future years.

South Yorkshire Pensions Authority Operating Budget	2020-21 Q2 Forecast Outturn £	2021/22 Budget £	2022/23 Estimate £	2023/24 Estimate £
Pension Administration	2,546,990	2,789,950	2,806,820	2,872,800
Investment Strategy	675,310	684,790	694,890	709,160
Finance and Corporate Services	671,840	710,620	712,560	732,450
ICT	557,910	667,200	681,360	694,540
Management and Corporate	414,560	402,650	410,980	418,800
Democratic Representation	123,350	142,620	145,480	148,420
Subtotal before transfers to reserves	**4,989,960**	**5,397,830**	**5,452,090**	**5,576,170**
Contribution to Reserves	455,640	47,770	5,000	6,000
Total Charge to Pension Fund	**5,445,600**	**5,445,600**	**5,457,090**	**5,582,170**
Membership	163,900	166,360	168,860	171,390
Cost Per Member	**£33.23**	**£32.73**	**£32.32**	**£32.57**

The budget requirement in 2021/22 has been frozen in cash terms for the third year, which given the increasing membership means that the cost per member of operating the fund has reduced. At the same time it has been possible through the redirection of resources to invest additional resources in staff development and support for project delivery. More detail is available in the Medium Term Financial Strategy and the Budget report.

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 2020/21 £m**	**Forecast 2021/22 £m**	**Forecast 2022/23 £m**	**Forecast 2023/24 £m**
Dealings with members, employers and others directly involved in the scheme:				
Contributions receivable and transfers in from other pension funds	(342)	(249)	(263)	(340)
Benefits payable and payments to or on account of leavers	339	349	365	380
Net (additions) / withdrawals from dealings with members	**(3)**	**100**	**102**	**40**
Management expenses	59	69	77	85
Net returns on investments	(1,486)	(543)	(568)	(529)
Net (increase)/decrease in the Fund during the year	**(1,430)**	**(374)**	**(389)**	**(404)**
Net Assets of the Fund At 1 April	(8,170)	(9,600)	(9,974)	(10,363)
Net Assets of the Fund At 31 March	**(9,600)**	**(9,974)**	**(10,363)**	**(10,767)**
Management Expenses as Percentage of Average Net Assets	**0.66%**	**0.71%**	**0.76%**	**0.80%**

This forecast reflects the significant rebound in financial markets during 2020/21, while still reflecting the increasing imbalance between contributions and benefits payable (although this is somewhat distorted by the impact of prepayments following each actuarial valuation). Currently management expenses are forecast to change reflecting a change in the balance of the fund's investments towards alternatives which attract higher levels of fees. Based on current estimates of the funding level this forecast indicates that based on the underlying assumptions it should be possible to maintain full funding at whole fund level.

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 97.1 full time equivalents (equating to around 110 people). Our workforce has seen significant change over the last 12-18 months with two cohorts of new starters within the pension administration service and the introduction of a number of new starters in other areas together with the redeployment of some existing staff into new roles as a result of the restructuring of aspects of our operations. These changes provide us with a workforce that is a bit more balanced than it was and allows us to better plan for how to deal with issues of succession planning.

A series of restructures over the last two years has allowed us to achieve a consistent organisational design across all of the organisation's teams which means that grading and responsibilities are consistent between teams addressing a number of previous anomalies.

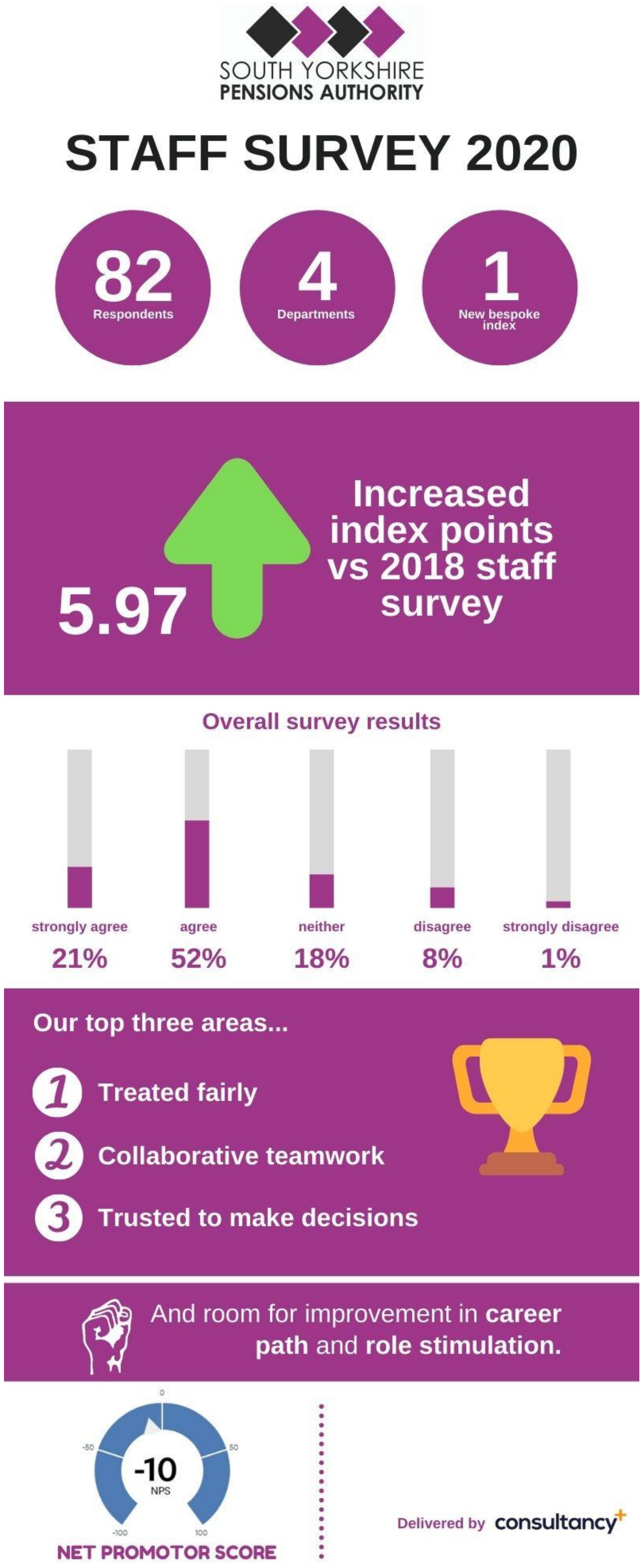
A number of the actions set out in the Action Plan within this corporate strategy reflect our continuing focus on the development of our workforce and more detail is set out in the Human Resources Strategy which sets out much more detail both on the challenges we face and the specific actions we propose 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

How staff feel about working for SYPA is also an important driver of the likelihood that we will be successful in delivering the various projects that are set out in this plan. During the last year we carried out our bi-annual staff survey. For the first time this was carried out by an external organisation in order to create a robust baseline so that we can better measure progress in this area.

Overall the results of the survey were positive with comparisons to the last survey in 2018, where possible, generally showing improvement and a range of positive comments about some of the more recent developments in terms of, for example, our approach to health and wellbeing. There are, though areas for improvement, some of which had been highlighted in the last iteration of this strategy, including the need to develop clearer career paths for more experienced staff within pension administration coupled with the need to involve this group in a more varied and interesting range of work, while not losing track of our core function of ensuring pensions are paid correctly and on time.

The info-graphic below summarises the results.


SOUTH YORKSHIRE
PENSIONS AUTHORITY
STAFF SURVEY 2020
82
Respondents
4
Departments
1
New bespoke index
5.97
Increased index points vs 2018 staff survey
Overall survey results
strongly agree
21%
agree
52%
neither
18%
disagree
8%
strongly disagree
1%
Our top three areas...
1 Treated fairly
2 Collaborative teamwork
3 Trusted to make decisions
And room for improvement in career path and role stimulation.
0
-50
50
-10
NPS
-100
100
NET PROMOTOR SCORE
Delivered by consultancy+

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 as an engaged and motivated workforce will assist us in delivering better services for our customers.

Subject	**Pensions Authority Budget 2021/22**	**Status**	For Publication
Report to	Authority	**Date**	21 January 2021
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 2021/22 for approval.

2 Recommendations

2.1 Members are recommended to:

a. Approve the 2021/22 budget for the Authority, a total of £5,445,600

3 Link to Corporate Objectives

3.1 This report sets out the budget for 2021/22 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 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.

Financial Context

5.2 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.

5.3 Members will recall that the budget for 2020/21 was prepared on the basis of a detailed review of resource requirements and this enabled the budget to be set at the same level in cash terms as the prior year but encompassed a re-alignment of financial resources in order to provide the required investment in a range of areas to support delivery of the Authority's corporate priorities.

5.4 As reported during the course of the year to date, the impact of the COVID-19 global pandemic has slowed some of the progress in these areas resulting in under-spends on the current year budget. Therefore, as set out in the Corporate Strategy report elsewhere on this agenda, many of these priorities remain to be carried forward into 2021/22 and the budget underpinning this therefore retains the appropriate resources required.

5.5 The budget for the year ahead also includes the effects from implementation of further restructuring – in Finance & Corporate Services and re-organisation of business support activities, the revenue effects of the planned change of office accommodation, continued investment in technology and the impact of acceleration that has taken place in regards to the agile working programme. It also supports the continued emphasis on supporting people and learning & development with an additional training officer post (by virement from the training budget) and the three additional pension officers previously approved by the Authority to address the McCloud implementation included within the employee costs budget.

Budget 2021/22

5.6 The table on the following page shows the proposed budget for 2021/22 and the main changes within this when compared to the current budget for the 2020/21 year.

Table 1: South Yorkshire Pensions Authority – Operating Budget 2021/22

Operational Budget	2020/21 Budget	Employee Costs				Other Running Costs	2021/22 Budget
		Pay Award Inflation	Homework Allowance	Other Employee Costs Changes	Finance Restructure & Business Support Review	Net Impact of Miscellaneous Changes	
	£	£	£	£	£	£	£
Investment Strategy	**771,700**	5,100	700	(21,410)	0	(71,300)	**684,790**
Pensions Administration	**2,814,520**	45,200	18,950	20,000	(77,050)	(31,670)	**2,789,950**
Finance & Corporate Services	**621,855**	9,400	4,520	16,545	56,000	2,300	**710,620**
ICT	**624,805**	7,150	2,100	18,190	0	14,955	**667,200**
Management & Corporate Costs	**430,635**	1,500	230	(35,465)	0	5,750	**402,650**
Democratic Representation	**135,485**	1,275	0	0	0	5,860	**142,620**
Subtotal before transfers to reserves	**5,399,000**	69,625	26,500	(2,140)	(21,050)	(74,105)	**5,397,830**
Appropriations to/ (from) Reserves	**46,600**	0	0	0	0	1,170	**47,770**
Total Charge to the Pension Fund	**5,445,600**	69,625	26,500	(2,140)	(21,050)	(72,935)	**5,445,600**

Total Charge to the Pension Fund comprises:	**2021/22 Budget £**
Administration Expenses	3,252,985
Investment Management Expenses	581,185
Oversight & Governance Expenses	1,611,430
	5,445,600

5.7 The overall budget requirement is for a total of £5,445,600 representing a freeze in cash terms on the 2020/21 budget.

5.8 The table provides an overall summary of the main changes proposed within the budgets for employee costs and running costs; the details of which are explained below.

Pay Award Inflation £69,625

5.9 This column shows the impact of potential inflationary awards on staff pay. The assumption that has been used for budgeting purposes is for a 2% pay award for all staff. There is a degree of uncertainty over this assumption given the announcement of a 'public sector pay freeze' for 2021/22 in the Spending Review 2020 published in November 2020. This does not directly affect the Authority as pay awards for local government workers are agreed through the National Joint Council for Local Government Services. The Local Government Association, which represents the employer side in the National Joint Council, has said that it is not bound by this pay policy but that pay awards will depend on the funding that local government receives through the financial settlement. At the time of preparing the budget, no further information is available and therefore an assumption of 2% for budgeting purposes was considered to be the most reasonable and prudent approach.

Homework Allowance £26,500

5.10 The impact of the COVID-19 pandemic and subsequent lockdowns resulted in the introduction of a new homeworking allowance that has been paid to staff since April 2020. The allowance is paid at the limit set by HMRC of £26 per month exempt from tax and national insurance. The cost of providing this allowance was not previously in the budget and was funded from employee cost underspends in the current financial year. For 2021/22 it is proposed to budget for this allowance, as it is likely that a requirement for homeworking will continue for several months at least. The budgeted amount has therefore been estimated on a pro-rata basis.

Other Employee Costs (£2,140)

5.11 The column for other changes to employee costs includes the effect of changes such as staff incremental progression, grade changes arising from job evaluations on a small number of posts that have taken effect since the 2020/21 budget was approved, changes in individual staff hours and staff turnover. In addition to these changes, the following two items of growth are also included.

5.12 A transfer of £35k from the organisational development budget into the employee costs budget for Pensions Administration in order to fund the introduction of a new training officer post which will be offered as an internal secondment for an experienced pensions officer in line with the objective set out in the Corporate Strategy.

5.13 Additional resources of £72k for up to 3 extra pension officers as approved at the 30 September 2020 Authority meeting in order to equip the service for dealing with forthcoming changes including those arising from McCloud remedy implementation, other age discrimination cases and GMP reconciliation.

Finance Restructure & Business Support Review (£21,050)

5.14 This shows the net effects on the budget of re-organisations as follows.

5.15 As Members are aware, the restructure of Finance & Corporate Services was approved in September 2020 and the budget for 2021/22 now includes the costs based on the new structure.

5.16 During 2020, a review and re-organisation of business support resourcing was also undertaken and this resulted in some posts moving from within Pensions Administration to Finance & Corporate Services.

Other Running Costs – Miscellaneous Changes

5.17 This column sets out the net budget impact of various specific changes to individual budget items – details of which are set out in the following table.

Budget Head	Item of Expense	Detail	Total £
Investment Strategy	Various	Over the course of the last year, continued review has been undertaken of the resource requirements within the investment strategy team budget which has identified additional scope for removal of resources where not required to maintain service levels. This has resulted in reduced budget requirements for corporate subscriptions and professional fees in particular.	(64,000)
Pensions Administration	Printing & Postage	The increasing use of technology and a diverse range of communication channels has resulted in recurrent savings on the budgets for printing and postage and the proposed budget includes the effect of this as well as further targeted savings to be achieved.	(55,000)
Pensions Administration	Project Management	As Members will recall, the budget for the current financial year included additional funding for a new Project & Improvement Lead post and there remains a significant commitment to ensuring appropriate resources are allocated for supporting the delivery of improvement projects and change in line with the Corporate Strategy. Consequently, an additional £28k is being proposed in the 2021/22 budget for this purpose.	28,000
ICT	Agile Working – Hardware Replacement	Similarly, the ICT budget for the current year included growth for investment in a programme of work to enable more agile working on a phased basis over 3 years. The COVID impact from March 2020 meant that this programme was accelerated and laptop equipment was purchased for all staff instead of being phased. Going forward, the laptop equipment will require replacement approximately every three years. Consequently it is proposed to transfer the associated budget for this in 2021/22 out of the ICT departmental budget and to transfer this instead into the ICT Reserve in order to set it aside to fund the next replacement programme in three years' time.	(35,000)
ICT	ICT Infrastructure	A range of smaller increases to the budget requirements for various network infrastructure costs including servers, data back-up solutions, pension administration software system developments and contractual uplifts.	31,000

Budget Head	Item of Expense	Detail	Total £
Management & Corporate Costs	External Audit Fees	The proposed budget allows for a potential increase to the external audit fees which is expected to be required as the auditor has incurred additional costs in delivering the audit arising from increasing auditing requirements – generally as a result of auditing standards and guidance and also in relation to additional work required in assessing the impact of COVID-19 on the Pension Fund's assets and liabilities. The auditor will be discussing the fees with officers and further detail is anticipated in their report to the Audit Committee in March. This is a national rather than a local issue and the figure included is regarded as very much a worst case.	7,500
Democratic Representation	Members Allowances	The Members' Allowances scheme was introduced with effect from 1 April 2020. This was included in the budget based on the estimated likely costs prior to the full scheme details being known and the actual costs have been slightly higher than estimated due to the impact of the inflationary increase during the year in line with the 2020/21 Local Government pay increase for staff of 2.75%. The budget now proposed includes the impact of this as well as an estimated 2% increase in line with the assumption used for the staff pay budgets.	5,860
Apportioned across service departments	Office Accomm-odation	The corporate strategy includes plans to deliver the move to new office accommodation during 2021 as approved by the Authority in Dec 2020. The implementation of this will result in longer term savings for the Authority as set out in the December report. The capital costs of the project for the fitting out and infrastructure implementation will be met from the Capital Projects Reserve. However, during the 2021/22 financial year, there will be some overlap of premises costs that affects the revenue budget. This has resulted in an increase of £30k for this year only. The on-going revenue savings achieved will be reflected in budgets from 2022/23 onwards.	30,000
All	Various	The overall net effect of a number of other minor changes reflecting the actual resourcing requirements within each departments for the 2021/22 financial year.	(21,295)
Total Changes to Running Costs Budgets			**(72,935)**

5.18 The proposed transfer of £47,770 to earmarked reserves comprises £35,000 for the ICT – Agile Programme as outlined in the table above to be transferred to the ICT Development Reserve and £12,770 to be taken from the remaining savings identified and transferred into the Capital Projects Reserve.

Workforce and Pay Policy

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

	2020-21 Funded Establishment FTE	Miscellaneous Changes FTE	Growth FTE	2020-21 Funded Establishment FTE
Investment Strategy	4.4	(0.4)	0.0	4.0
Pensions Administration	62.4	(1.8)	4.0	64.6
Finance and Corporate Services	13.8	2.4	0.0	16.2
ICT	7.8	0.0	(0.5)	7.3
Management and Corporate Costs	1.0	0.0	0.0	1.0
Democratic Representation	0.0	0.0	0.0	0.0
Apprentices	3.0	0.0	1.0	4.0
Total	**92.4**	**0.2**	**4.5**	**97.1**

5.20 The Miscellaneous Changes column includes the following.

5.21 A reduction of 0.4 FTE in Investment Strategy following the retirement of the Head of Transition.

5.22 An increase of 2.4 FTE in Finance & Corporate Services comprising 1.6 FTE transferred from Pensions Administration following the re-organisation of business support posts, and an increase of 0.8 FTE arising from the restructure of Finance & Corporate Services.

5.23 A reduction of 1.8 FTE in Pensions Administration comprising the business support transfer outlined above and other small changes to individual staff hours.

5.24 The Growth column includes the additional 3 FTE Pensions Officers and 1 Training Officer as set out in paragraphs 5.12 and 5.13 above.

5.25 In addition, the ICT department are proposing to reallocate a vacant 0.5 FTE post in order to create 1 FTE Apprentice post within the ICT team.

5.26 The Authority does not budget for an assumed level of vacancies and the intention is, generally, to operate at full establishment throughout the year. As far as possible, 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.

5.27 The Authority produces a Pay Policy Statement (available on the website) which sets out its arrangements for pay and reward. As any national pay award applicable from April 2021 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

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

Reserve	Forecast Balance at 01/04/2021 £	Estimated Contributions to Reserves £	Estimated Contributions from Reserves £	Estimated Balance at 31/03/2022 £
Corporate Strategy Reserve	238,831	0	0	238,831
ICT Reserve	116,383	35,000	0	151,383
Subtotal Revenue Reserves	**355,214**	**35,000**	**0**	**390,214**
Capital Projects Reserve	1,111,160	12,770	0	1,123,930
Total Earmarked Reserves	**1,466,374**	**47,770**	**0**	**1,514,144**

5.29 As Members are aware, the funds in the Capital Projects Reserve are earmarked for the funding of projects including the Long Term Accommodation project and the replacement of Business Systems, as well as for potential costs that may arise in relation to Pension Administration software system subject to the outcome of the procurement exercise. It is expected that funds will be required from this reserve in 2021/22 but at this stage, the detail of the amounts required and timing are as yet uncertain and therefore this has not been included in the budget forecast for the earmarked reserves.

5.30 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

5.31 Included within the Democratic Representation budget shown above is the draft budget for the Local Pension Board, a total of £14,000. The detail of this budget will be presented to the Board at their meeting on 28 January. In future years, the Board's draft budget will be considered and approved by them at their December meeting prior to it being included in the annual budget report to the Authority.

Report Under Section 25 of the Local Government Act 2003

5.32 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.

5.33 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.

5.34 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.

5.35 The preparation of the 2021/22 budget builds on the comprehensive review undertaken last year and the detailed budget monitoring carried out throughout the year and reported on quarterly. This ensures that budgeted resources going forward are determined and allocated to reflect the actual needs of the organisation.

5.36 Employee costs make up two thirds of the overall budget. The budget estimates for employee costs have been prepared based on the new structures within the organisation and include additional staffing resources as set out 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.

5.37 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.

5.38 As outlined in para 5.9 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 and prudent based on the best information available at this time. In light of the wider public sector pay policy and the pressures on Local Government finances, the risk that the pay award will be higher than this is considered minimal. There is a risk that it could be lower in which case this would result in an under-spend.

5.39 The budget estimates have been developed specifically to align with the Authority's corporate strategy and priorities.

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

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

5.42 The reserves held by the Authority are required to fund specific expenditure in future years or are required to provide risk finance. As set out in the Medium Term Financial Strategy, our policy is to limit the total amount held in the revenue earmarked reserves to no more than 7.5% of the total budget. The proposed revenue reserves total of £390k as set out in paragraph 5.28 above is within this self-imposed limit and is considered to be adequate for the purposes outlined and to meet needs arising from any unforeseen events during the year.

5.43 Additionally, the Capital Projects Reserve will provide adequate level of resources required for the major projects to be undertaken as set out in paragraph 5.29.

Conclusion

5.44 The budget proposals outlined in this report are based on a continued approach of comprehensively reviewing the 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 Implications

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 5.19.
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	**Medium Term Financial Strategy 2021/22 to 2023/24**	**Status**	For Publication
Report to	Authority	**Date**	21 January 2021
Report of	Treasurer 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 2021/22 to 2023/24 for consideration and approval.

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2 Recommendations

2.1 Members are recommended to:

a. Approve the Medium Term Financial Strategy 2021/22 to 2023/24

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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. 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.
Legal	No direct implications.
Procurement	No direct implications.

Neil Copley **George Graham**

Treasurer **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

2021/22 to 2023/24

Contents

1. Foreword

1.1 Foreword to the Medium Term Financial Strategy 2021/22 to 2023/24

1.1.1 This Medium Term Financial Strategy (MTFS) has been produced by the South Yorkshire Pensions Authority to cover the period from April 2021 to March 2024. This period will see the continued emphasis on supporting the overall Corporate Strategy in building on the continuing improvement journey for the organisation, as well as continuing the 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 are subject to ongoing review as part of the process of regular budget monitoring and producing updates to this strategy.

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 is 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

2.1 Public Sector Finance

2.1.1 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.

2.1.2 The main factors which normally affect 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.

2.1.3 The effects of the global COVID-19 pandemic is clearly a hugely significant issue for Local Government at the current time. The financial settlement for 2021/22 includes funding for Councils for costs arising from this, as well as additional funding for social care. However, a substantial proportion of this additional funding is dependent on increases to council tax, and it remains the case that the overall context is that local government finances are under increasing pressure.

2.1.4 The national pay award for 2020/21 was agreed at 2.75%. In November 2020, the Spending Review included a freeze on wider public sector pay. Local government pay is not directly affected by this as it is negotiated by the National Joint Council for Local Government Services. The Local Government Association, which represents the employer side in the National Joint Council, has said that it is not bound by this pay policy but that pay awards will depend on the funding that local government receives through the financial settlement.

2.1.5 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 quite possibly below, the level of 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.

2.2 The Pensions Sector

2.2.1 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.

2.2.2 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.

2.3 The Economic Environment

2.3.1 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.

2.3.2 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.

2.4 The Starting Point

2.4.1 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.

2.4.2 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.

2.4.3 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, which in many cases were no longer required. This informed the review of the strategy and the production of the current Investment Strategy Statement from March 2020, which reduced the level of exposure to UK equities and index linked gilts and moved funds into private credit and infrastructure with the aim of reducing volatility and achieving additional stable income.

3. Financial objectives

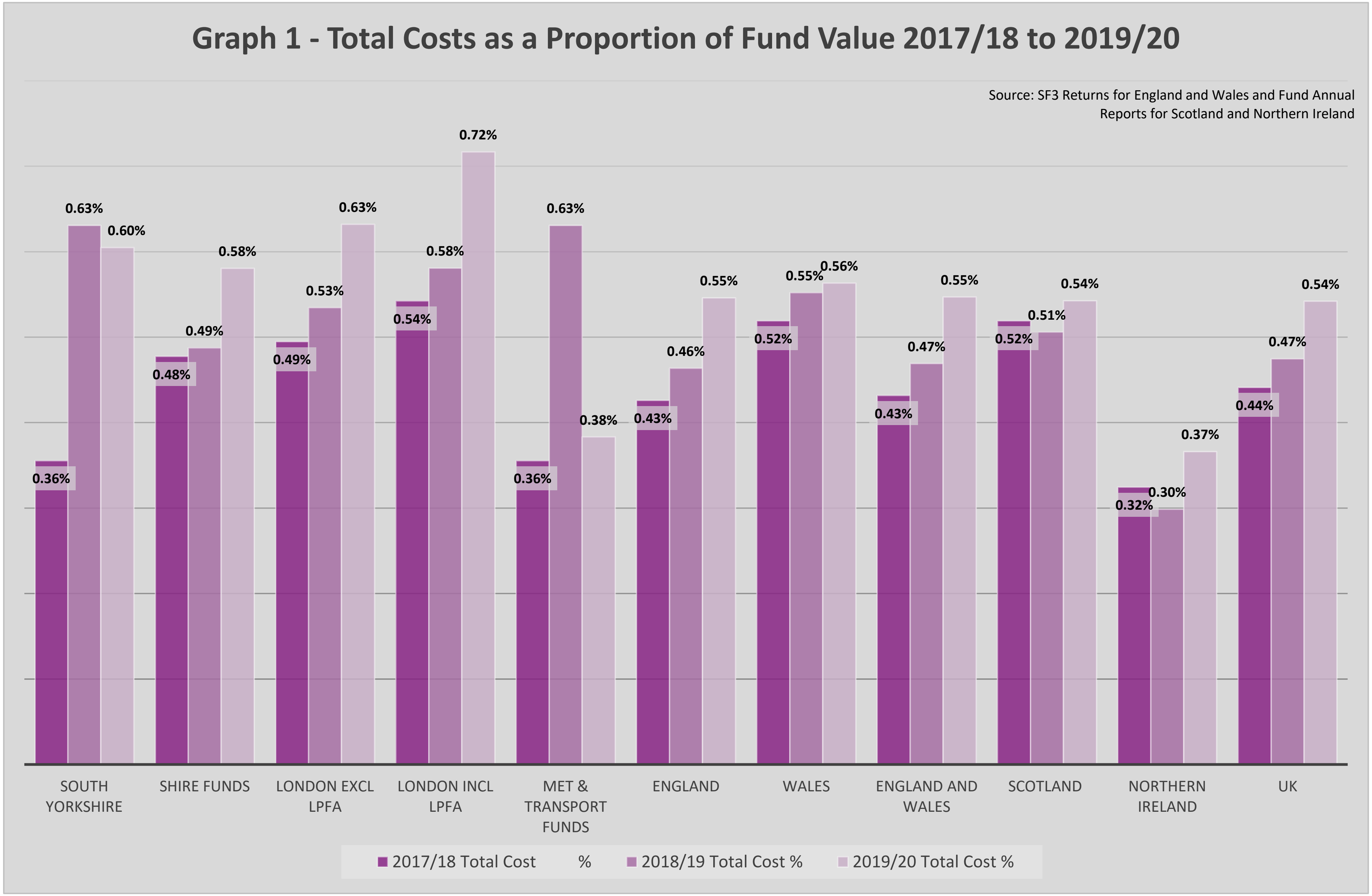
3.1 Financial Objectives

3.1.1 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.

3.2 Comparative Costs

3.2.1 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.

3.2.2 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 2017/18 to 2019/20.


Graph 1 - Total Costs as a Proportion of Fund Value 2017/18 to 2019/20
Source: SF3 Returns for England and Wales and Fund Annual Reports for Scotland and Northern Ireland
0.36%
0.63%
0.60%
0.48%
0.49%
0.58%
0.49%
0.53%
0.63%
0.54%
0.58%
0.72%
0.36%
0.63%
0.38%
0.43%
0.46%
0.55%
0.52%
0.55%
0.56%
0.43%
0.47%
0.55%
0.52%
0.51%
0.54%
0.32%
0.30%
0.37%
0.44%
0.47%
0.54%
SOUTH YORKSHIRE
SHIRE FUNDS
LONDON EXCL LPFA
LONDON INCL LPFA
MET & TRANSPORT FUNDS
ENGLAND
WALES
ENGLAND AND WALES
SCOTLAND
NORTHERN IRELAND
UK
2017/18 Total Cost %
2018/19 Total Cost %
2019/20 Total Cost %

3.2.3 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 from 2018/19 represents an increase in the investment costs being reported, 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). Since 2018/19 SYPA, with the aid of Border to Coast, has made significant progress in this regard, enabling the separate identification and reporting of an additional £19 million of such costs in 2018/19 compared to the previous year. It should also be noted that unlike other LGPS funds SYPA is not able to fully recover VAT resulting in a tax drag now amounting to c£0.5m pa.

3.2.4 It is evident from the national results that our progress has out-paced that of the majority of other Funds. However, a similar impact is now starting to be seen within some of the other Funds' costs for 2019/20 and it is anticipated this will continue, making these comparisons more useful going forward as they will be on a more 'like-for-like' basis.

3.2.5 The following table presents more detail of the investment costs and this demonstrates the impact since 2018/19 of the enhanced reporting of these external management costs that are deducted at source.

Investment Management Expenses - Breakdown	2017/18	2018/19	2019/20	Change from 2018/19 to 2019/20
	£000	£000	£000	£000
Pooling Costs - Invoiced	406	1,935	2,066	131
Internal Management Costs	974	672	596	(76)
External Management Costs - Invoiced	3,764	5,335	3,529	(1,806)
External Management Costs - Deducted at Source	18,741	40,254	37,790	(2,464)
Irrecoverable VAT Liability	255	516	497	(19)
Total Investment Management Expenses	**24,140**	**48,712**	**44,478**	**(4,234)**
Fund Value at 31 March: £000	**8,030,353**	**8,439,965**	**8,170,401**	**(269,564)**
Investment Costs as Percentage of Fund Value	**0.30%**	**0.58%**	**0.54%**	

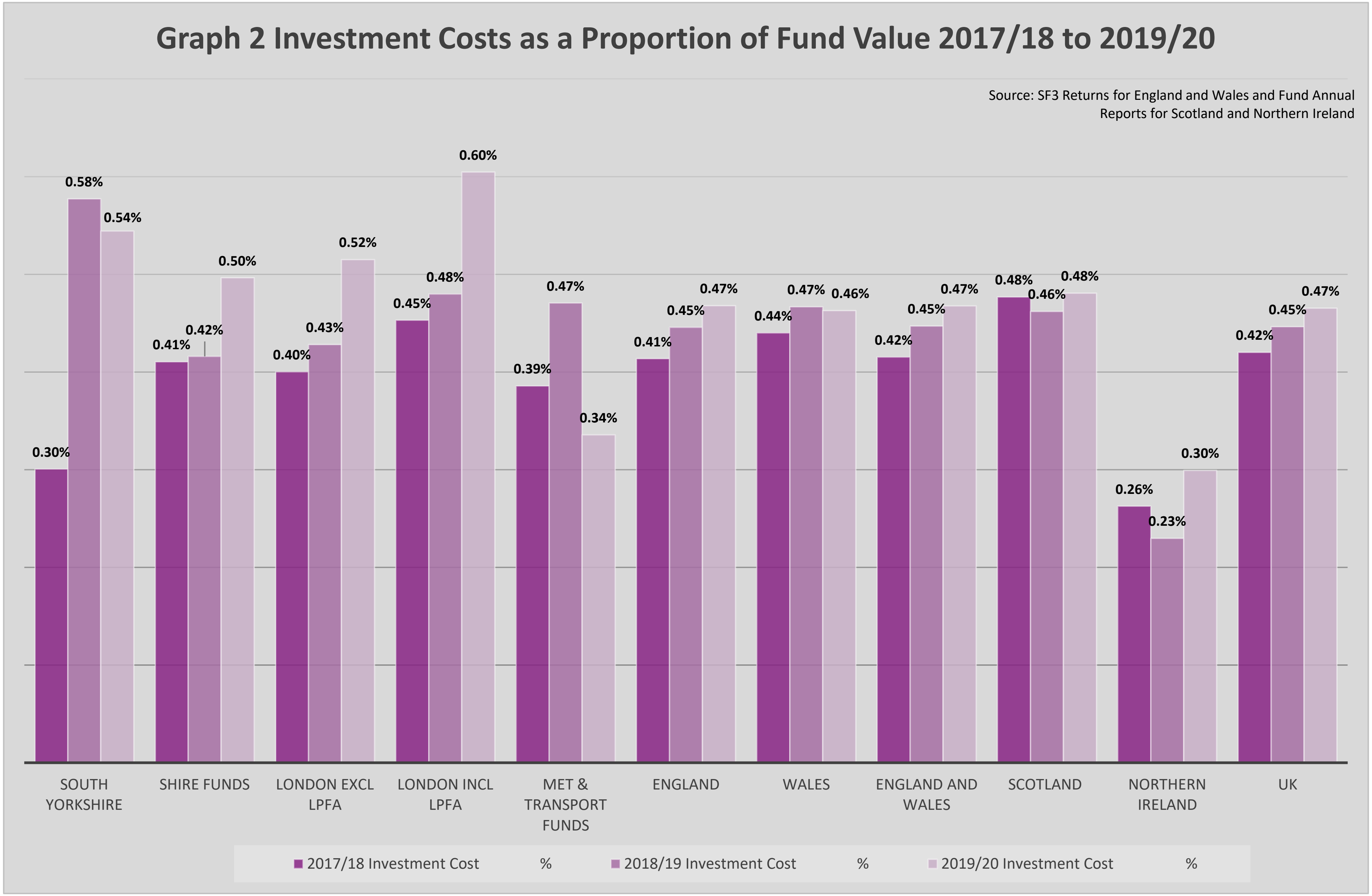
3.2.6 The Authority is confident that our performance in controlling actual costs overall remains strong; but there is no room for complacency and we continue to closely monitor this area in light of the following factors that are driving cost increases:

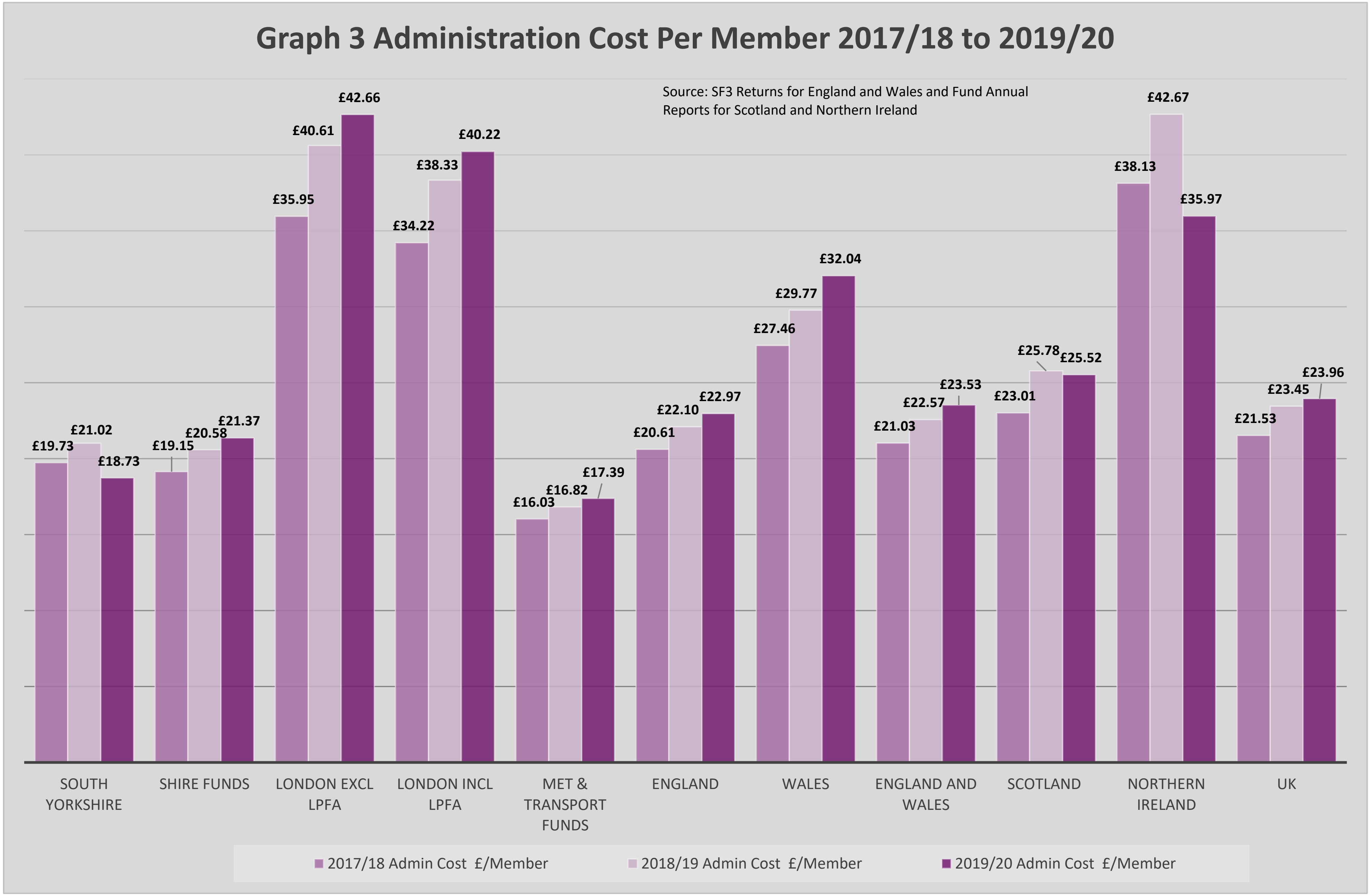
- The Fund's strategic asset allocation is moving more of the portfolio into unlisted assets such as private equity and infrastructure which in general tend to be more expensive to manage.

- 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.

3.2.7 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.

3.2.8 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.


Graph 2 Investment Costs as a Proportion of Fund Value 2017/18 to 2019/20
Source: SF3 Returns for England and Wales and Fund Annual Reports for Scotland and Northern Ireland
0.30%
0.58%
0.54%
0.41%
0.42%
0.50%
0.40%
0.43%
0.52%
0.45%
0.48%
0.60%
0.39%
0.47%
0.34%
0.41%
0.45%
0.47%
0.44%
0.47%
0.46%
0.42%
0.45%
0.47%
0.48%
0.46%
0.48%
0.26%
0.23%
0.30%
0.42%
0.45%
0.47%
SOUTH YORKSHIRE
SHIRE FUNDS
LONDON EXCL LPFA
LONDON INCL LPFA
MET & TRANSPORT FUNDS
ENGLAND
WALES
ENGLAND AND WALES
SCOTLAND
NORTHERN IRELAND
UK
2017/18 Investment Cost %
2018/19 Investment Cost %
2019/20 Investment Cost %


Graph 3 Administration Cost Per Member 2017/18 to 2019/20
Source: SF3 Returns for England and Wales and Fund Annual Reports for Scotland and Northern Ireland
£19.73
£21.02
£18.73
£19.15
£20.58
£21.37
£35.95
£40.61
£42.66
£34.22
£38.33
£40.22
£16.03
£16.82
£17.39
£20.61
£22.10
£22.97
£27.46
£29.77
£32.04
£21.03
£22.57
£23.53
£23.01
£25.78
£25.52
£38.13
£42.67
£35.97
£21.53
£23.45
£23.96
SOUTH YORKSHIRE
SHIRE FUNDS
LONDON EXCL LPFA
LONDON INCL LPFA
MET & TRANSPORT FUNDS
ENGLAND
WALES
ENGLAND AND WALES
SCOTLAND
NORTHERN IRELAND
UK
2017/18 Admin Cost £/Member
2018/19 Admin Cost £/Member
2019/20 Admin Cost £/Member

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3.2.10 It is evident from Graph 3 that Administration costs for the Authority 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.

3.2.12 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. In order to support this, we are now participating 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. The results of these benchmarking exercises are reported to the Local Pensions Board and the Authority each year.

3.2.13 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 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	2021/22 Baseline £ / Member	2022/23 Cash Limit[2] £ / Member	2023/24 Cash Limit[2] £ / Member
Administration Service	£20.04	£20.46	£20.89
Authority Operational Budget	£32.73	£32.32	£32.57

Notes

1. The 2021/22 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 2021 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 2.1% 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, weighted in accordance with the financial objective set out above.

3. Membership is assumed to increase at 1.5% per year in line with recent trends.

3.3.5 Given that, broadly, investment costs have a relationship to the value of invested assets it would be sensible to have an objective which recognises 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. 3.9%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. Further work on development and reporting of these will be possible following the implementation of the new finance system during 2021/22.

4. Financial forecasts

4.1 Forecast Assumptions

4.1.1 Any financial forecast is based on a series of assumptions. 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 actuarial results of the 2019 Valuation for Future Service Rates and Deficit recovery payments that apply from April 2020 to March 2023.
- **Volume Driven Benefits and Transfers Costs/Income -** These are based on three year moving averages, adjusted where relevant for known large one off items such as bulk transfers out.
- For the operational budget, the forecast is based on the pay and prices assumptions shown above.
- 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	2021/22 Budget £	2021/22 Estimate £	2022/23 Estimate £
Employees	3,631,700	3,737,800	3,820,390
Running Costs	1,896,125	1,846,880	1,891,010
Subtotal: Gross Expenditure	**5,527,825**	**5,584,680**	**5,711,400**
Income	(129,995)	(132,590)	(135,230)
Subtotal: Net Expenditure	**5,397,830**	**5,452,090**	**5,576,170**
Contribution to Reserves	47,770	5,000	6,000
Total Charge to Pension Fund	**5,445,600**	**5,457,090**	**5,582,170**
Membership	166,360	168,860	171,390
Cost Per Member	**£32.73**	**£32.32**	**£32.57**

4.2.2 The preparation of the 2021/22 budget builds on the comprehensive review undertaken last year and the detailed budget monitoring carried out throughout the year and reported on quarterly. This ensures that budgeted resources going forward are determined and allocated to reflect the actual needs of the organisation and with the over-arching aim of supporting the delivery of the Authority's Corporate Strategy.

4.2.3 The total budget for 2021/22 has been set at the same level in cash terms as both 2020/21 and 2019/20 whilst retaining an appropriate level of resource to support the continued investment in technology and learning & development whilst also equipping the organisation with the resources required to meet all of its requirements and respond to challenges.

4.2.4 The estimates for the remainder of the Medium Term set out above are based on projecting the 2021/22 budget forward, including inflationary increases as necessary.

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, although the current wider local government and public sector finance context has been heavily impacted by the global pandemic and current pressures relating to the UK's exit from the EU. 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 a strengthening of budgetary controls and processes over the last 18 months and work to refine and enhance this, in particular around indicator measures and risk analysis, will continue and will be helped by the implementation of new business systems over the next financial year. There is therefore no indication of any likelihood of deterioration. The controls in this

regard are currently subject to an internal audit review as part of their programme of work for the 2020/21 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 Forecast, 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 2020/21 £m	Forecast 2021/22 £m	Forecast 2022/23 £m	Forecast 2023/24 £m
Dealings with members, employers and others directly involved in the scheme:				
Contributions receivable and transfers in from other pension funds	(342)	(249)	(263)	(340)
Benefits payable and payments to or on account of leavers	339	349	365	380
Net (additions) / withdrawals from dealings with members	**(3)**	**100**	**102**	**40**
Management expenses	59	69	77	85
Net returns on investments	(1,486)	(543)	(568)	(529)
Net (increase)/decrease in the Fund during the year	**(1,430)**	**(374)**	**(389)**	**(404)**
Net Assets of the Fund At 1 April	(8,170)	(9,600)	(9,974)	(10,363)
Net Assets of the Fund At 31 March	**(9,600)**	**(9,974)**	**(10,363)**	**(10,767)**
Management Expenses as Percentage of Average Net Assets	0.66%	0.71%	0.76%	0.80%

4.3.2 In the first year of the forecast, investment costs (including those within the operational budget) are at 66 bps, and are expected to rise up to 80 bps by 2023/24. However, this forecast does not fully reflect change in costs which will arise from the pooling process, which will to some extent mitigate these increases. It should also be borne in mind that this forecast is produced on a fully transparent basis and therefore comparisons with other funds will not necessarily be valid. These forecasts will be reviewed against benchmark data when 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 forecast Fund value at the end of the current year reflects the significant rebound of markets in the first quarter of 2020/21, following the sharp decline that took place in Feb / Mar 2020 as a result of the global COVID-19 pandemic.

4.3.5 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.

4.3.6 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. Steps have been taken, both through the broad asset allocation and through the equity protection that was in place up until April 2020, to reduce the potential volatility in the Fund but the risk of events which might cause significant market dislocation remains and, if anything, is at the current time heightened as a result of continuing tensions around international trade and the economic impact of the COVID-19 pandemic.
- 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. The fiscal uncertainty associated with the pandemic heightens this risk, and it is therefore being actively monitored.
- 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 11 partner funds to address any underperformance.

4.3.7 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 significantly lower return environment for a protracted period 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

5.1 Reserves

5.1.1 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.

5.1.2 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.

5.1.3 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.

5.1.4 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."

5.1.5 During 2019/20 and in the current 2020/21 financial year, there have been large 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
- Implementation of the long term accommodation plan, involving a move to newly leased premises which will require legal and professional fees as well as a capital outlay for refurbishment and fitting out.

5.1.6 The capital costs of the above projects are expected to be in the region of several hundred thousand pounds and therefore a new 'Capital Projects Reserve' was created following Authority approval in 2019/20. This reserve is not subject to the limit as set out above as this would not be appropriate given the nature of this reserve and the requirements to be funded. Nevertheless, the funding level contained in this reserve will be kept under review and should this be less than anticipated after projects have progressed and there is greater certainty over timing and amount of costs, then the level will be adjusted accordingly and any unnecessary funds released back to the pension fund.

5.1.7 The forecast level of reserves for the medium term are as shown in the following table.

South Yorkshire Pensions Authority Earmarked Reserves	Forecast Balance at 31 March 2021 £	Forecast Balance at 31 March 2022 £	Forecast Balance at 31 March 2023 £	Forecast Balance at 31 March 2024 £
Operational Revenue Reserves:				
Corporate Strategy Reserve	238,831	238,831	238,831	240,831
ICT Development Reserve	116,383	151,383	156,383	160,383
Subtotal - Revenue Reserves	**355,214**	**390,214**	**395,214**	**401,214**
Revenue Reserves as % of Budget	*6.5%*	*7.2%*	*7.2%*	*7.2%*
Capital Projects Reserve	1,111,160	1,123,930	1,123,930	1,123,930
Total Reserves	**1,466,374**	**1,514,144**	**1,519,144**	**1,525,144**

5.1.8 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, although it is expected that the Capital Projects reserve will be fully spent by the end of 2022/23. The reserves will be drawn upon during the medium term period but at this stage, there remains uncertainty regarding the exact timing and amounts. 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.

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Subject	Staff Survey	Status	For Publication
Report to	Authority	Date	21st January 2021
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	Phone	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To present the results of the staff survey to members of the Authority.

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2 Recommendations

2.1 Members are recommended to:

a. **Note and comment on the results of the staff survey and the actions incorporated into the updated corporate strategy elsewhere on the agenda for this meeting.**

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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.

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.

Our staff are an important stakeholder group and are crucial to our success as an organisation. By considering the results of the survey alongside the update to the corporate strategy members can ensure that appropriate actions are being taken in response to the results.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report seek to address the workforce related risks identified in the Corporate Risk Register in a way which addresses the specific concerns raised by staff.

5 Background and Options

5.1 The Authority undertook its last staff survey in 2018. Good practice is to undertake such surveys regularly in order to gauge the level of staff engagement and to identify issues which could cause concern for management and impact on the effective functioning of the organisation. Given the size of SYPA and the relative stability of the workforce undertaking such surveys every two years represents a sensible approach allowing changes in response to previous surveys to take effect. Thus the organisation was scheduled to undertake a further survey during 2020.

5.2 Concerns had been raised by some staff about the degree of anonymity possible in previous surveys, a common issue in smaller organisations with some relatively small teams. In addition there were also some concerns about the robustness of some of the questions in previous surveys and a need was identified to measure progress over time by creating an “engagement index” using the results of the survey. Consequently it was decided to procure an external organisation to undertake the survey on behalf of the Authority. Consultancy+ a part of the Reed organisation were appointed using a national consultancy framework.

5.3 The survey was carried out during November with the results being reported in December and shared with staff. A total of 82 responses represents about an 85% response rate, which is regarded as good for a survey of this type and is certainly statistically valid given the size of the workforce. The detailed report is included as an Appendix and the graphic below summarises the results.

SOUTH YORKSHIRE
PENSIONS AUTHORITY

STAFF SURVEY 2020

82 Respondents

4 Departments

1 New bespoke index

5.97 Increased index points vs 2018 staff survey

Overall survey results

strongly agree	agree	neither	disagree	strongly disagree
21%	52%	18%	8%	1%

Our top three areas...

1. Treated fairly
2. Collaborative teamwork
3. Trusted to make decisions

And room for improvement in **career path** and **role stimulation.**

NET PROMOTOR SCORE

Delivered by consultancy+

5.4 The broad results show some improvement on 2018 although the two surveys are not directly comparable, and the tenor of responses across the various categories is more positive than in 2018. The qualitative results are also more positive than in 2018 and while negatives are highlighted (as is only right) they are not issues which raise alarm bells. There are also positive comments on the focus that has been placed on health and wellbeing and some aspects of our support for staff while homeworking has been enforced.

5.5 The net promoter score (how likely are you to recommend SYPA as an employer) is -10. However, 46% of respondents scored SYPA as 7 or 8 out of 10 and are regarded as passive (or neutral) in the methodology for this measure. While clearly there is work to do here 68% of the respondents were either passive or positive which gives a good base to work from.

5.6 Carrying out surveys of this sort is all very well, but the important thing for staff is what management do with the results. The areas highlighted as strongly positive in the graphic are all areas where there has been a significant degree of management focus over the last two years, so it is pleasing to see strong scores in these areas. The areas highlighted as areas for improvement had already been identified in the corporate strategy for the current year as areas for focus but progress has been impacted by Covid-19 and the need to work remotely. These areas will receive renewed focus and feature significantly in the updated Corporate Strategy, elsewhere on the agenda for this meeting, as do some areas highlighted in the qualitative results such as the need to bring the pension administration knowledge base up to date and to reinstate the monthly stand ups (albeit virtually) which has already been done. Visibility of Senior Management is raised as an issue (and is often raised in the results of such surveys). The Senior Management Team are conscious of the issue but are concerned not to create artificial means of interacting with staff across the organisation. The level of informal interaction which takes place in the office is clearly something that is missed by people and which impacts on the visibility of Senior Managers to the organisation as a whole. This is an area we will keep under review and try to take opportunities to address.

5.7 These survey results show some positive progress in key areas and having established a baseline we will be able to make much more robust comparisons of progress over time when the next survey is undertaken in 2022.

6 Implications

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

Financial	There are no direct financial implications arising from this report, resources are already in place to support work to improve the career path and provide more development for staff. The work to undertake the survey was funded from the Corporate Strategy Reserve.
Human Resources	The survey results raise issues about maintaining clear career paths and development for staff who have reached the top of the Pensions Officer scale given the relatively small number of promotional opportunities available. Work to address these issues and to continue to improve management and supervisory skills are included in the corporate strategy and will be prioritised in the coming year.

ICT	None
Legal	None
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**

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Employee Engagement Survey

with consultancy+

SOUTH YORKSHIRE PENSIONS AUTHORITY

Introduction

Hello and welcome to results of the staff engagement survey.

This report contains the following:

- A bespoke index
- Net Promoter Score
- Results to each question asked in the survey
- Insights into the data
- Qualitative feedback
- Raw survey data

Index

The SYPA staff survey index provides an overall survey score, along with a score for each section of the survey. This provides benchmark data that will be used in future surveys.

How to use the index

The score for each question is calculated as the mean average response, with a range of -2 to 2. Each section will then produce a score of between -100 and 100. With the overall score also being between -100 and 100. Any positive score means that any ”agree” or “strongly agree” responses outweigh “disagree” or “strongly disagree” responses.

consultancy+		Score
My Role	Access to resources	**0.96**
	Trusted to make decisions	**1.02**
	Know what is expected	**0.96**
	SECTION SCORE	**49.21**
Leadership and Management	Receive feedback	**0.49**
	Opinions count	**0.54**
	Aware of goals and values	**1.01**
	Understand how to contribute	**0.88**
	SECTION SCORE	**36.43**
Professional Development	Training available	**0.61**
	Coaching support	**0.98**
	Stimulated by my role	**0.51**
	Career path	**0.22**
	SECTION SCORE	**28.96**
Working Environment	Treated fairly	**1.32**
	Inspired by my team	**1.18**
	Work/life balance	**1.01**
	Wellbeing support	**0.91**
	SECTION SCORE	**55.34**
	TOTAL INDEX SCORE	**43.16**

Average of the responses

Overall section score

Total survey score

Index vs 2018

Below shows a comparison against the 2018 survey. Whilst not all questions from 2018 are the same, and therefore cannot be included, the survey is matched as close as possible. Weightings have also been adjusted to enable question and section comparison.

consultancy+		Score	2018	Score
My Role	Access to resources	0.96	N/A	
	Trusted to make decisions	1.02	Q7	1.00
	Know what is expected	0.96	Q7	0.94
	SECTION SCORE	49.21		48.46
Leadership and Management	Receive feedback	0.49	Q9	0.63
	Opinions count	0.54	Q14	0.07
	Aware of goals and values	1.01	Q14	
	Understand how to contribute	0.88	Q14	
	SECTION SCORE	36.43		17.44
Professional Development	Training available	0.61	Q11	0.61
	Coaching support	0.98	N/A	
	Stimulated by my role	0.51	N/A	
	Career path	0.22	Q11	0.41
	SECTION SCORE	28.96		25.46
Working Environment	Treated fairly	1.32	Q12	0.99
	Insprired by my team	1.18	Q8	1.37
	Work/life balance	1.01	Q7	1.08
	Wellbeing support	0.91	N/A	
	SECTION SCORE	55.34		57.24
	TOTAL INDEX SCORE	43.16	TOTAL INDEX SCORE	37.19

Net Promotor Score (NPS)

The NPS lets you measure employee satisfaction with a single question. Your score represents the net percentage of your customers who are promotors of your organisation.

On a scale of 0-10, how likely is it you will recommend working here to a friend or colleague?

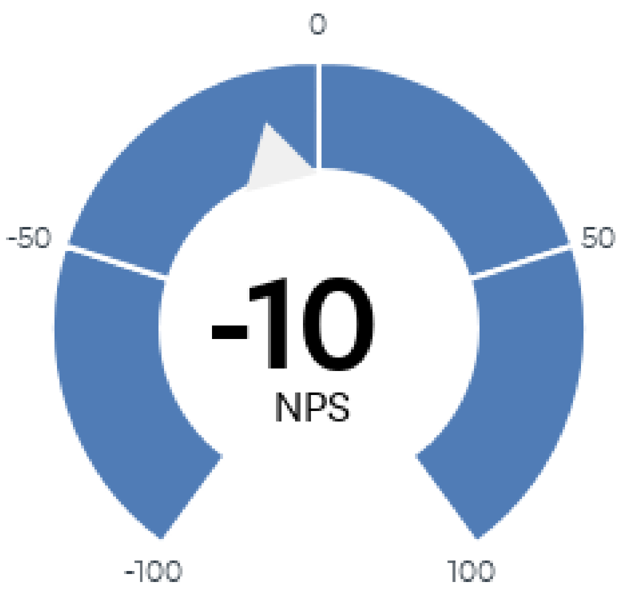
Based on their responses, your employees will fall into one of three groups.

Promotors: 9-10. Loyal enthusiasts who will recommend your company as a good place to work to their friends and family.
Passives: 7-8. Satisfied but unenthusiastic who could be swayed.
Detractors: 0-6. Unhappy employees who have the potential to damage your reputation

The score is calculated using: (% of customers who are Promoters) - (% of customers who are Detractors) = Net Promoter Score

SYPA Results

DETRACTORS (0-6)	PASSIVES (7-8)	PROMOTERS (9-10)	NET PROMOTER® SCORE
32% 26	46% 37	22% 18	-10



Survey Results

This section shows the quantitative results from each section of the survey.

There was a total of 82 respondents to the survey.

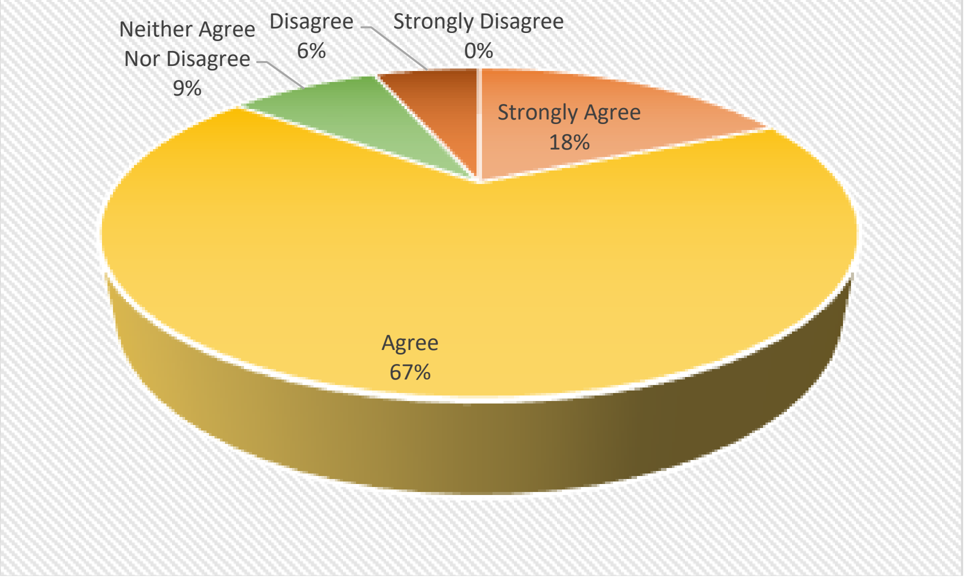
Overall results of each question are shown.

The results can be filtered by:
- Department
- Tenure
- Age

We have therefore drawn out any relevant or interesting insights and comparisons across the workforce for each questions.

My role

Q1. I have access to the resources and information that I need to do my job well

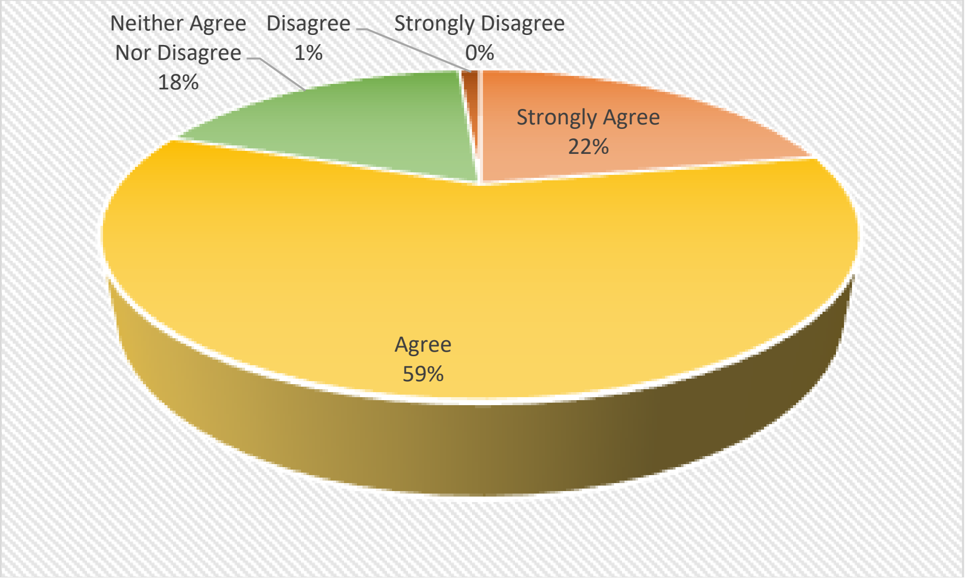


Insights

- Consistent response across tenure and age
- Investment Strategy and Finance and Corporate with a 100% positive response
- Pensions Admin with 10% negative response
- IT with 13% negative response

My role

Q2. I am trusted to make decisions

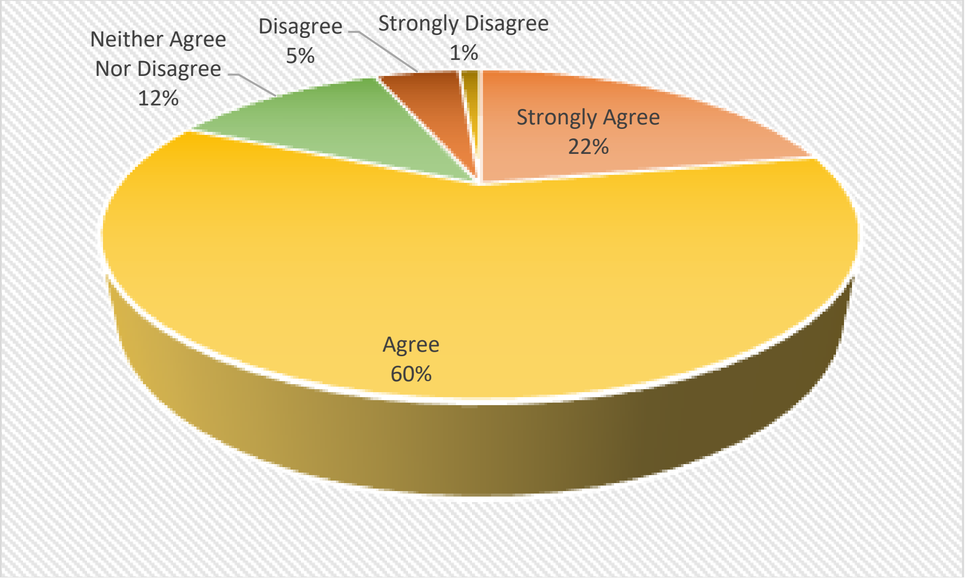


Insights

- Consistent response across tenure and age
- 50% of the IT response strongly agree
- Consistent across other departments

My role

Q3. I know what is expected of me in my role

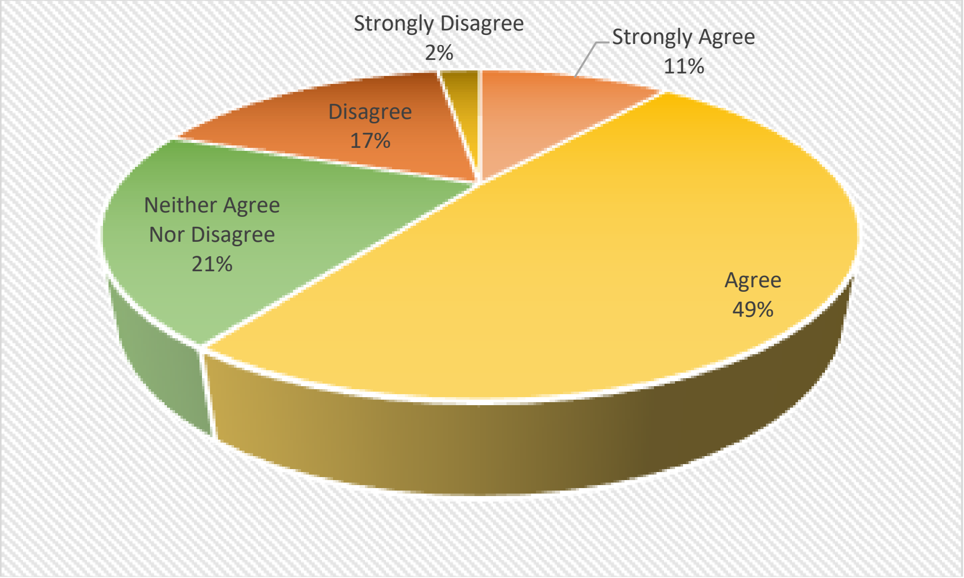


Insights

- 100% agreement from the 1-2 years tenure response
- 100% agreement from the 18-24 age category
- Consistent response across departments, with IT having the greatest negative response at 13%

Leadership and Management

Q4. I regularly receive feedback on my performance

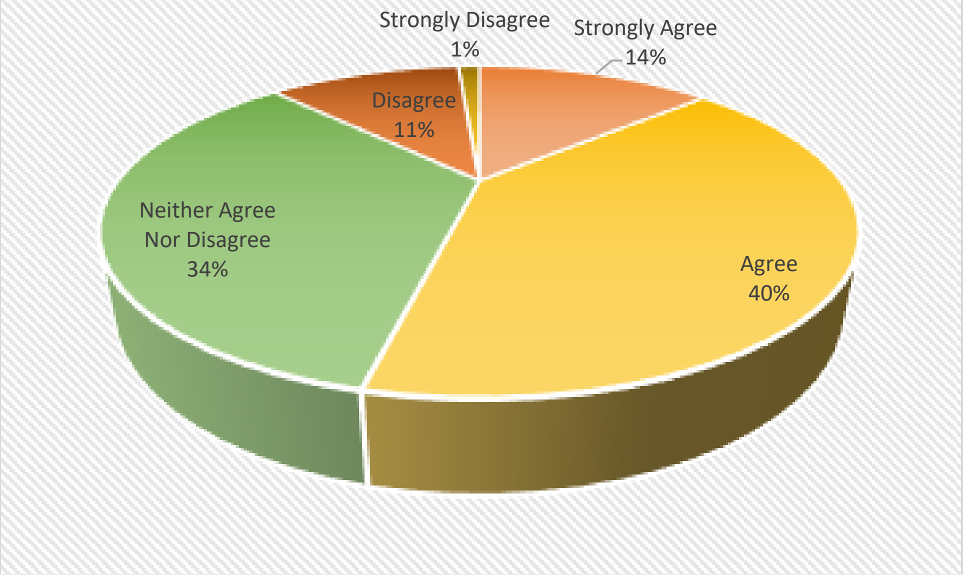


Insights

- 33% of those with 1-2 years tenure agreed
- Consistent across other tenure categories
- Consistent response across age
- Polarised response from Investment Strategy: 33% strongly agree, 33% disagree, 33% neither
- IT with 38% disagreeing

Leadership and Management

Q5. I feel that my opinions count



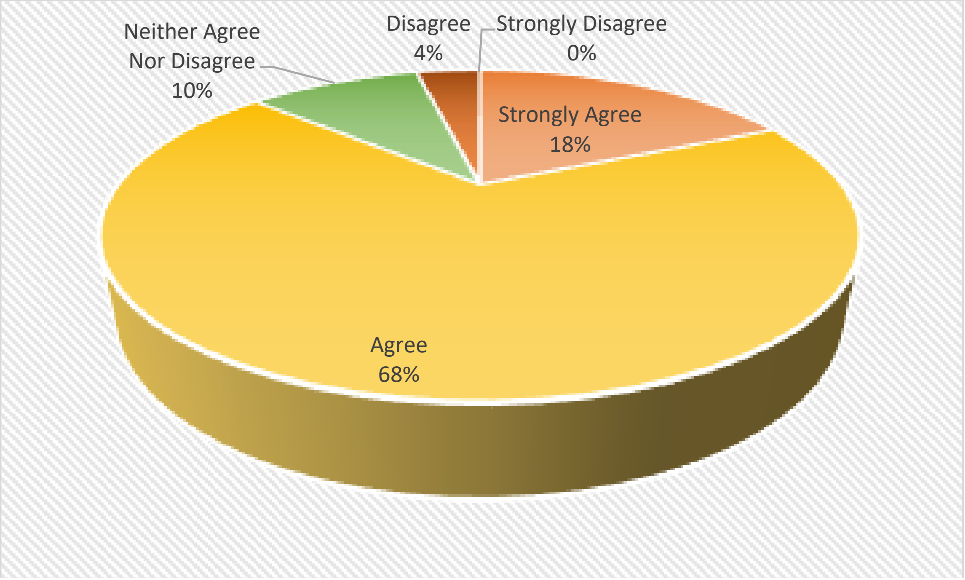
Insights

- 77% of less than 1-year tenure agreed vs 50% of everyone else agreeing
- Consistent response across age
- 42% agreement in finance vs 56% across the rest of the organisation

Leadership and Management

SOUTH YORKSHIRE
PENSIONS AUTHORITY

Q6. I am aware of the organisation's goals and values

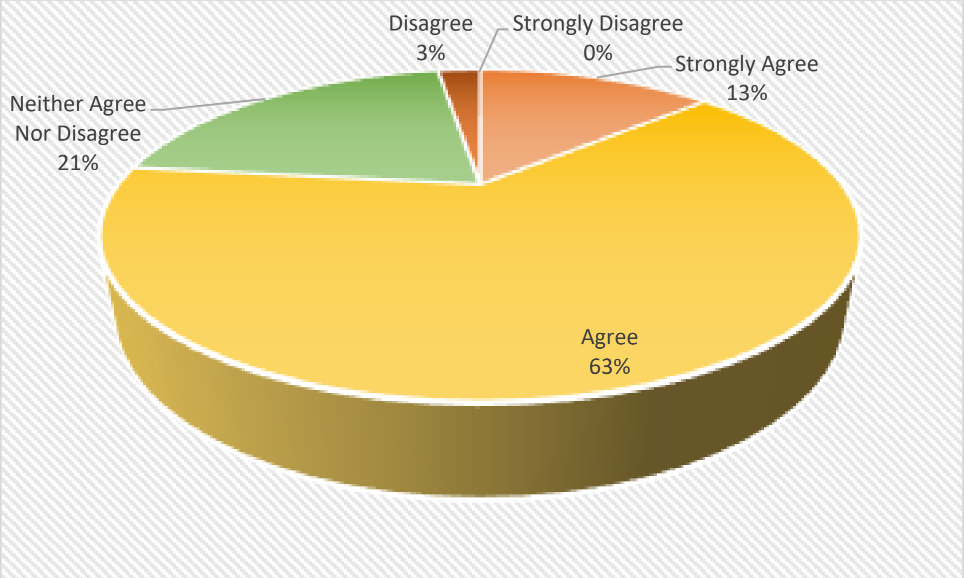


Insights

- Consistent response across age and tenure
- IT with 13% disagreement vs 3% across the rest of the organisation

Leadership and Management

Q7. I understand how I can contribute to achieving these goals



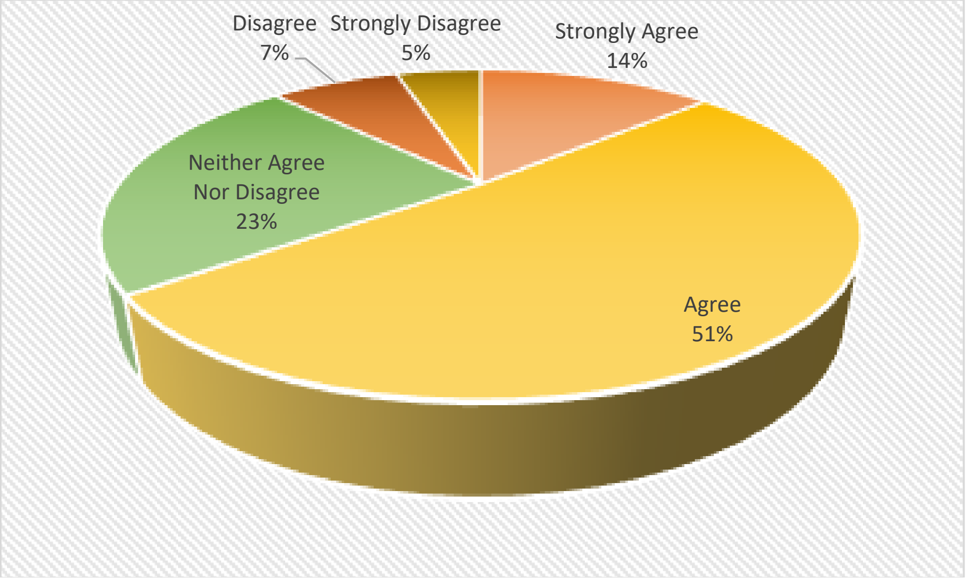
Insights

- Consistent response across age, tenure and department

Professional Development

SOUTH YORKSHIRE PENSIONS AUTHORITY

Q8. There is training/tools available for me to improve my skills



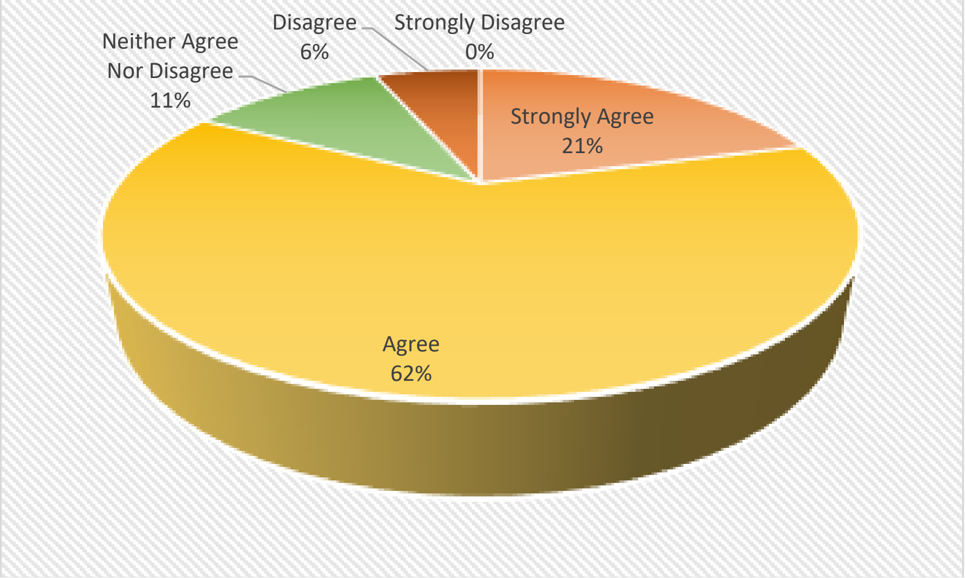
Insights

- 62% agree with tenure over 2 years vs 70% with tenure under 2 years
- Consistent response across age
- 12% showing a positive response in IT vs 70% across the organisation

Professional Development

SOUTH YORKSHIRE PENSIONS AUTHORITY

Q9. My manager supports me in improving my skills



Insights

- Consistent response across tenure and age
- 37% agree in IT vs 88% across the rest of the organisation

Professional Development

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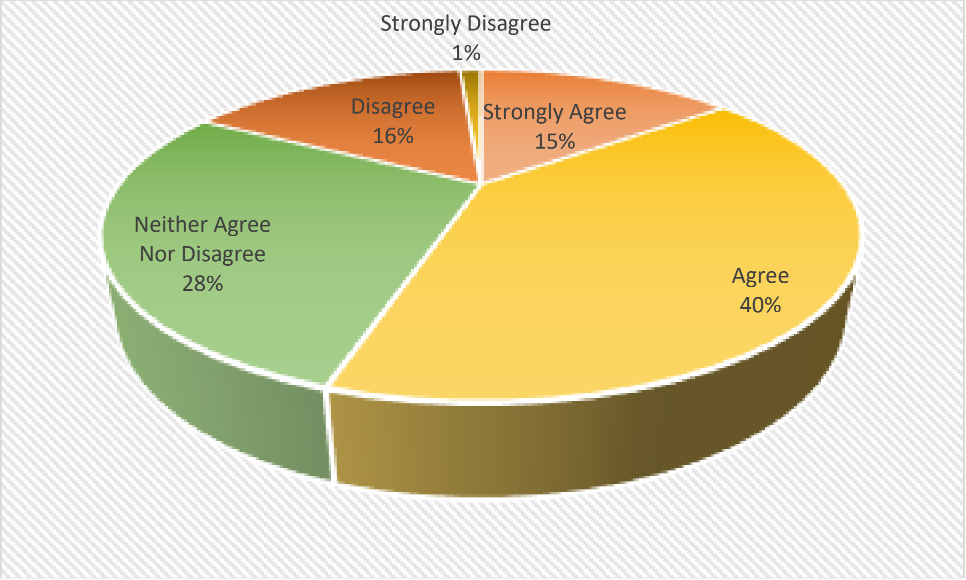
Q10. I feel stimulated by my role



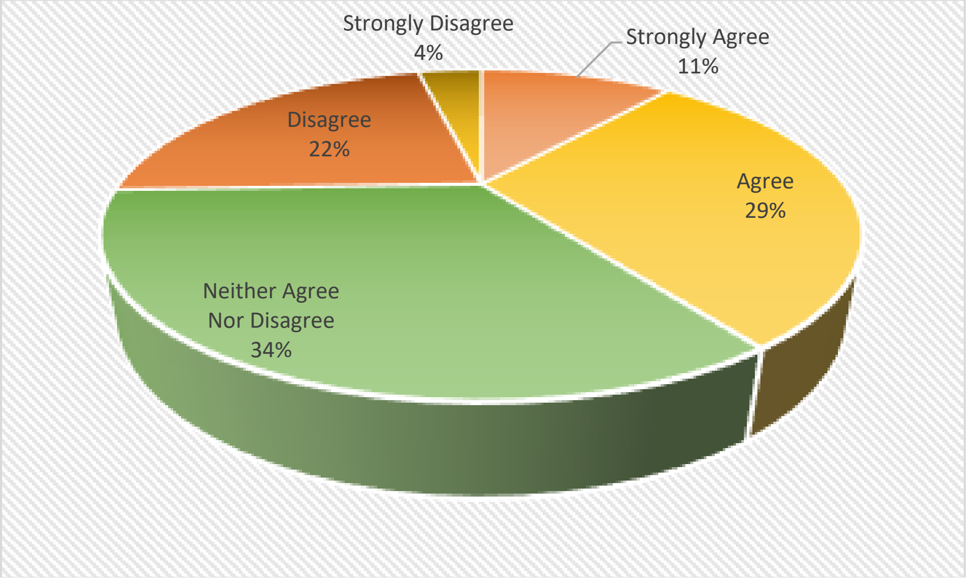
Insights

- Tenure: less than 1 year and more than 5 years 40% agree vs 57% 1-2 years and 2-5 years
- Consistent response across age and department

Professional Development

SOUTH YORKSHIRE PENSIONS AUTHORITY

Q11. I have a clear understanding of the next steps in my career here



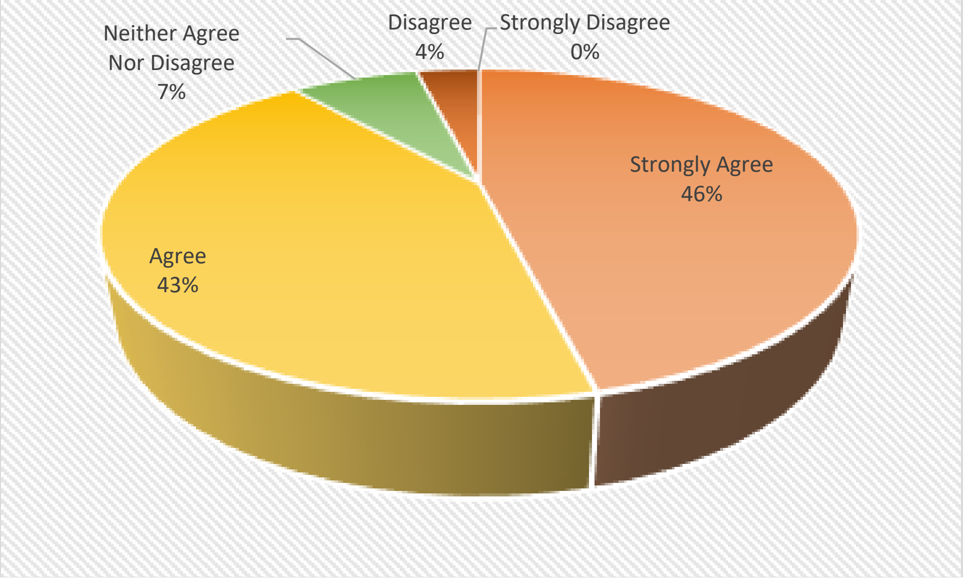
Insights

- 69% with less than 1-year tenure agreed vs 36% agreement across the rest of the organisation
- 73% agreement from aged 55 or older vs 35% across the rest of the organisation
- Consistent across all departments

Working Environment

SOUTH YORKSHIRE PENSIONS AUTHORITY

Q12. I am treated fairly by my manager

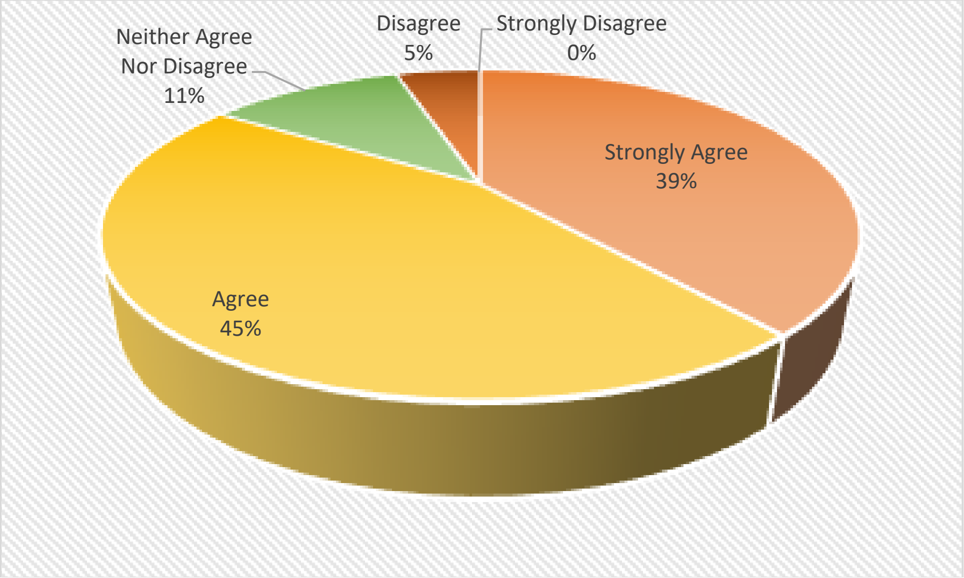


Insights

- 6% disagreed with tenure of more than 5 years vs 0% across the rest of the organisation
- Consistent response across age
- 0% disagreement in IT and Investment Strategy

Working Environment

Q13. I work within a collaborative and supportive team

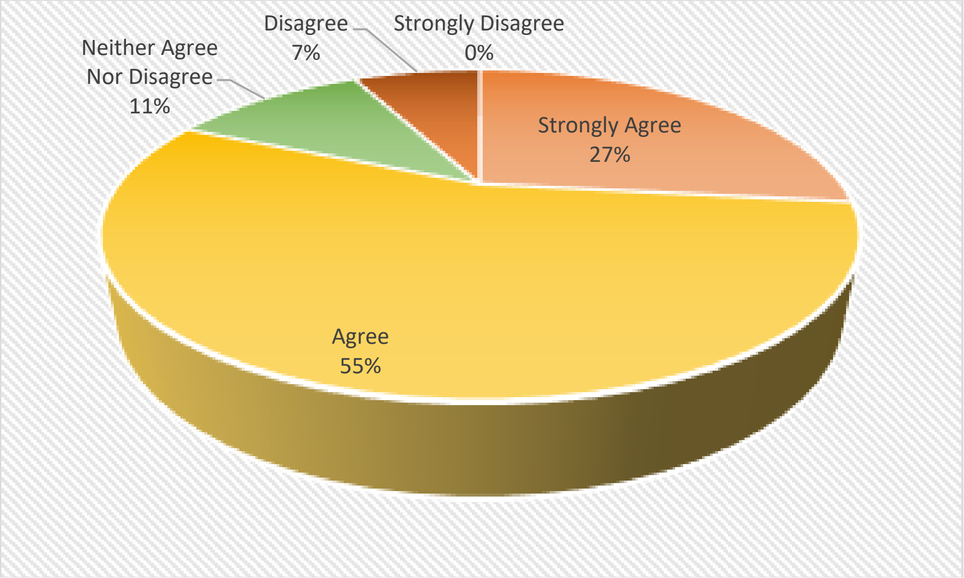


Insights

- 7% disagreed with over 5 years tenure vs 0% across the rest of the organisation
- Consistent response across age
- 7% disagreed within Pensions admin vs 0% across the rest of the organisation

Working Environment

Q14. I have a good work/life balance

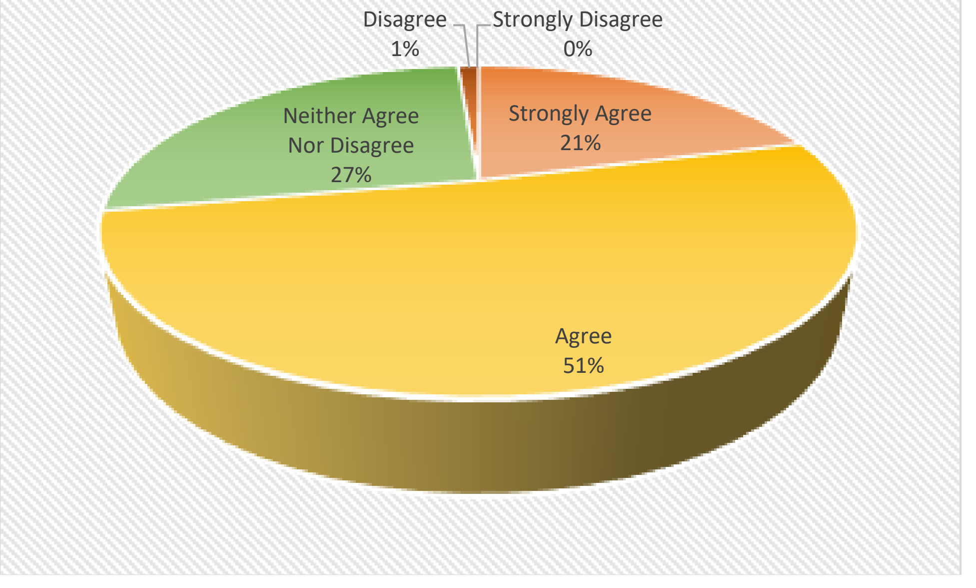


Insights

- 100% agreement in those with tenure less than 1 year
- Consistent response across age
- 65% agreement across Finance and IT vs 87% agreement across the rest of the organisation

Working Environment

Q15. SYPA has good wellbeing initiatives that support me at work



Insights

- Consistent response across all tenures, age and departments

Qualitative results

The section shows the qualitative results of the staff survey. The key trends from each section have been summarised below, along with any notable comments raised.

My Role

- The role of Pensions Officer has recently been increased in scope, with more duties added. Mixed response to this.
- Resources sometimes hard to find on SharePoint
- Pensions Officers feeling stretched and overworked

"Nice to have regular conversations and dialogue with my Manager now, and feel I have support and he listens to what I say. Just need to be careful and not put too many additional duties on though, without something being moved somewhere else"

"As I understand it I am a pensions officer however, it would appear that I am also now a payroll officer, call centre operative and deal will virtual advisory consultant all with no consultation"

"It would be helpful if the portal was fully up to date but it is understandable that the support team currently dont have the resources for this"

"Workload constantly added to (for instance passing over of Payroll duties) with scant regard for the effect on employees"

"The knowledge Wiki is only half finished with answers, email addresses aren't always correct or present on EPIC"

"Locating resources and information can be time-consuming. SharePoint is a bit of a labyrinth and the new portal is only partially up-to-date"

Leadership and Management

- Feeling that senior management need to be heard and comminate more, especially given the current circumstances
- Positive comments on immediate line manager relationships

"I get regular positive feed back from my line manager"

The SMT make all the right noises about being supportive and have facilitated some useful "courses for managers and staff""

Qualitative results

"Management seem remote especially in the current circumstances and the organisation still seems quite divided"

"Apart from the monthly stand up meetings you don't here from management at all. We have only had one since March. It would have been nice for the weekly update to have been presented in person at least once a month. I believe management don't realise that we need this contact more now we are working from home"

"Lack of communication between SMT, line managers & teams makes my work difficult"

"Currently in the best management/team leader set up that I have had in all the time at sypa"

Professional Development

- High workload and demands make it hard to think about professional development
- Unclear on how to progress and how the grade structure works
- Harder to access training whilst working from home

"Being an experienced officer at the top of my grade I feel there is no more avenues unless you want a management position or to move to a total different department! If you don't want these roles I feel this is frowned upon by SM"

"Professional development takes a back seat due to the constant demands placed upon me and the team. In some respects, it now feels like my career at SYPA has reached its limit of progression"

"I feel that we do receive training where it is necessary but feel, at the stage which I am at, I would need to ask for further skills to be developed if I wanted to progress as there is no set development plan in place at present"

"I understand that there is progression within my role but it hasn't been explained to me in a clear way"

"I don't feel there is a clear path for how I could progress my career here. All management roles require management experience as an essential criteria. There isn't any way to gain management experience unless you hold a managerial position"

Qualitative results

Working Environment

- Working from home has impacted the team environment
- Seem to be a lot of good intentions but seen as skirting around the real issues
- Overworked pensions officers finding it impacts on wellbeing

"My line Manager is excellent and so are my team members, there is not doubt that we have all been there for each other and remained positive whilst morale has been low at times whilst working from home"

"Working from home has made it more difficult to interact as a team, having a mentor has helped me very much as 1st point of contact if I have problems/need advice"

"I feel very happy in my team and in the wider organisation. The resources put into health and wellbeing are much appreciated: particularly the physio support, mental health training and homeworking allowance"

Survey Data

Below is the question data informing this report.

	Results					Percentage Split				
Question	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree
I have access to the resources and information that I need to do my job well	15	55	7	5	-	18%	67%	9%	6%	0%
I am trusted to make decisions	18	48	15	1	-	22%	59%	18%	1%	0%
I know what is expected of me in my role	18	49	10	4	1	22%	60%	12%	5%	1%
I regularly receive feedback on my performance	9	40	17	14	2	11%	49%	21%	17%	2%
I feel that my opinions count	11	33	28	9	1	13%	40%	34%	11%	1%
I am aware of the organisation's goals and values	15	56	8	3	-	18%	68%	10%	4%	0%
I understand how I can contribute to achieving these goals	11	52	17	2	-	13%	63%	21%	2%	0%
There is training/tools available for me to improve my skills	11	42	19	6	4	13%	51%	23%	7%	5%
My manager supports me in improving my skills	17	51	9	5	-	21%	62%	11%	6%	0%
I feel stimulated by my role	12	33	23	13	1	15%	40%	28%	16%	1%
I have a clear understanding of the next steps in my career here	9	24	28	18	3	11%	29%	34%	22%	4%
I am treated fairly by my manager	38	35	6	3	-	46%	43%	7%	4%	0%
I work within a collaborative and supportive team	32	37	9	4	-	39%	45%	11%	5%	0%
I have a good work/life balance	22	45	9	6	-	27%	55%	11%	7%	0%
SYPA has good wellbeing initiatives that support me at work	17	42	22	1	-	21%	51%	27%	1%	0%
Total	255	642	227	94	12	21%	52%	18%	8%	1%

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Regulatory and Policy Update**	**Status**	For Publication
Report to	Authority Local Pension Board	**Date**	21st January 2021 28th January 2021
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	**Phone**	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To provide members with an update on regulatory and policy developments.

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2 Recommendations

2.1 Members are recommended to:

a. Note and comment on the various developments in the regulatory and policy environment.

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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.

Ensuring members are aware of regulatory and policy developments and of officers thinking in relation to the organisational response at an early stage is an important aspect of member learning and development and also of ensuring transparent governance.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report relate to the identified risks around regulatory compliance.

5 Background and Options

5.1 There are a range of developments within the regulatory and policy environment of which Board members should be aware and where officers will be developing appropriate policies during the year ahead. These are outlined below.

The £95k Cap

5.2 As has previously been reported it is anticipated that the revised LGPS Regulations which will bring the LGPS regulations in line with the Treasury Directions on this will be made prior to the end of the Financial Year, consultation having closed on the draft proposals during December. The local government trades unions together with Lawyers in Local Government and the Chief Executive's Union (ALACE) have been granted leave for a judicial review in relation to the disconnect between the current LGPS regulations and the Treasury Directions. It is understood that this will pause any action by the Pensions Ombudsman in relation to complaints raised about decisions made in relation to this issue. The Authority has determined a policy position in relation to this issue which is intended to result in any determination made following a challenge by a scheme member being least likely to require the recovery of money from the scheme member. At this stage no further action is required, however, the peak period for redundancy early retirements is around the turn of the financial year, so it will be desirable for the conflict between the two sets of regulations to have been resolved by this point. It is likely that once the new regulations are in place that some policy decisions will be required in relation to the potential underfunding of liabilities caused by the use of the standardised early retirement factors developed by the Government Actuary for the calculation of strain payments when compared with those provided by the Fund Actuary.

Employer Flexibilities

5.3 The LGPS (Amendment)(No2) Regulations 2020 introduce new flexibilities which Administering Authorities can choose to exercise with regard to the resetting of employer contributions between formal valuations and the means by which employers can be enabled to exit the Scheme. Officers have been involved in the process of drafting both Statutory Guidance from the Ministry of Housing, Communities and Local Government and guidance from the Scheme Advisory Board in relation to these flexibilities. In order to exercise these flexibilities appropriately it will be necessary to develop and consult on specific policies for inclusion in the Funding Strategy Statement and a report elsewhere on the agenda for the Authority's meeting sets out the process for this and a range of specific considerations.

McCloud

5.4 It had been hoped that the regulations relating to the rectification of the McCloud issues within the LGPS would be laid this year with a later implementation date to bring them in line with the other public sector schemes. It now seems that this is unlikely and the LGPS process seems likely to proceed in parallel with the other public sector schemes which require new primary legislation in order to make the relevant changes, and it is not clear when parliamentary time will be available for such legislation. In the meantime given the information available work can continue to gather data and prepare communications in order to implement the remedy.

Reporting the Impact of Climate Change

5.5 As part of the Chancellor's announcement before Christmas in relation to the UK's future as a leader in "green finance" it was announced that from 2023 LGPS funds will be expected to include reporting in line with the requirements of the Task Force on Climate Related Financial Disclosure (TCFD) within their annual reports. This is something that the Authority already does on a voluntary basis and other elements to this announcement requiring more companies to report in line with TCFD will make it easier to gather data and provide a more comprehensive picture of the climate impact of the Fund's investments.

Statutory Guidance on Pooling

5.6 Information included with the Spending Review and indications from MHCLG are that the long awaited Statutory Guidance on pooling should be published during this year. This follows the abortive informal consultation in 2019 which led to threats of legal action by some funds. Given this and given the limitations on the scope of statutory guidance following the Supreme Court judgement in the Palestine Solidarity Campaign case it is not clear whether there will be both statutory guidance and some proposed changes in regulations. There are risks for the Authority in this area should the process of assessing the benefits of pooling take too narrow a view, and work has already been started following the annual review of the Border to Coast Partnership to identify more clearly the wider benefits of SYPA's participation in the pool.

Changes to Local Authority Audit Arrangements

5.7 There are a number of changes to local authority audit arrangements which will impact the Authority.

- Firstly the new Code of Audit Practice requires changes to the way in which the value for money conclusion is produced. This will result in more of a narrative report. It is not yet clear how this process will work for SYPA and officers and the external auditors will be discussing this issue as part of planning for the audit process.
- Secondly, as a result of the Redmond review of local authority audit it is proposed to move the statutory deadline for the production of accounts back to September from July. (Note due to Covid-19 there was an extension until the end of October in 2020) The Authority has traditionally looked to secure approval of its audited accounts and its full annual report by the end of July and officers see no reason to change this practice which in the context of a wider September deadline will actually make it easier for the District Councils, Fire, Police and Combined Authority Group to deal with pensions issues within their accounts. The external auditors have been made aware of this and so far have not raised any issues.
- Finally, the Redmond review proposes a range of other changes to financial reporting which the Government have accepted should be implemented. Given the specialist nature of the Authority it is not clear how these will impact on SYPA and work will be required by CIPFA to develop the relevant professional codes before these can be implemented.

5.8 The Redmond review also points out the instability in the audit market caused by the unsustainably low fees generated by the way in which audit contracts have been procured. It is therefore regarded as inevitable that there will be some increase in audit fees, although this has yet to be discussed in detail with Deloitte.

6 Implications

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

Financial	There are no direct financial implications arising from this report although it does highlight the likelihood of increases in the level of audit fees.
Human Resources	None
ICT	None
Legal	None directly

Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**

Subject	Employer Flexibilities	Status	For Publication
Report to	Authority	Date	21st January 2021
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	Phone	01226 772887
E Mail	ggraham@sypa.og.uk		

1 Purpose of the Report

1.1 To secure agreement in principle to the implementation of the new employer flexibilities and to the initiation of a consultation process with employers.

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2 Recommendations

2.1 Members are recommended to:

a. **Agree in principle that the Authority should implement the employer flexibilities provided under the LGPS Regulations**

b. **Agree to initiate a consultation process with employers on the way in which the flexibilities should be implemented**

c. **Agree to initiate consultation on changes to the least risk basis for calculating termination payments**

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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.

Effective and Transparent Governance

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

Undertaking consultation with stakeholders on the way in which the new employer flexibilities are implemented reflects both the requirements of the Regulations and a transparent approach to the exercise of the Authority's responsibilities while ensuring effective engagement with stakeholders.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report relate to the risks identified in the corporate risk register around regulatory compliance and also the risks around employer affordability. The intention of the flexibilities now provided within the LGPS regulations is to support both administering authorities and employers in managing these risks.

5 Background and Options

5.1 As previously reported to the Authority the Government has made the Local Government Pension Scheme (Amendment) No. 2 Regulations 2020. These provide administering authorities with a number of new tools in relation to the management of employer risk and the facilitation of scheme exits. The statutory guidance from the Ministry of Housing and Local Government and the Scheme Advisory Board guidance both make clear that the decision on whether or not to utilise these powers is one for administering authorities to make and that in doing so they should consider the views of employers and other stakeholders. In addition having decided to utilise these powers new policies will need to be incorporated into the Funding Strategy Statement, and there is a statutory requirement to consult on such changes.

5.2 The regulations introduce a number of flexibilities and this report considers whether the Authority should, in principle, seek to adopt them. Using these new flexibilities creates a situation where the Authority is making individual judgement based decisions which could be open to legal challenge in a more obvious way than has previously been the case. It is, therefore, important that the policies and procedures implemented ensure consistent and reasonable treatment of all employers.

Reassessment of Contributions between Valuations

5.3 The first new flexibility relates to the ability of the Authority or an employer to initiate a reassessment of contributions between formal actuarial valuations. This seems likely to be a particularly useful addition should, as has previously been proposed (but not yet enacted), the period between formal valuations is extended to four years. This power is not intended to give licence to reassess contributions in response to every movement in the value of the Fund's investments, rather it is intended to allow a prompt response to changes in circumstances affecting an employer which could have a significant impact on the value of their liabilities and hence contribution rates or on the employer's ability to meet their obligations. Examples might include:

- Restructuring of a council due to a move to unitary status.
- Restructuring of a Multi-Academy Trust for example due to the individual academies that make it up or a change in how its rate is assessed across its academies.
- A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund).
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements, large number of withdrawals or the loss of a significant contract or income stream.
- A material change to the strength of an employer's covenant.

5.4 In general terms it is desirable to re-set contribution rates in circumstances such as these at as early a point as possible to ensure that employer's contributions do not diverge from the plan set at each tri-ennial valuation to meet liabilities over an appropriate timescale. Thus it seems sensible to include use of this flexibility within the Authority's range of available tools. In order to implement this flexibility the Authority will need to set policies which ensure consideration of the following:

- Define when a change is significant enough to justify the undertaking of a reassessment of contributions. For example an employer losing 5% of its workforce as a result of a loss of a contract is unlikely to be significant but the loss of 50% of its workforce would be significant. Any change in membership would need to be assessed in terms of the size of the employer..
- At what points in time during the valuation cycle it will be appropriate to carry out such reassessments. For example it would not seem sensible to initiate a reassessment a few months prior to the formal valuation.
- Which party will bear the costs associated with a reassessment
- The nature of the assumptions and membership data which can be used in the reassessment.
- The data to be provided by the employer

5.5 Making clear statements of policy in regard to all of these issues is intended to ensure that the Authority is seen to behave reasonably and to treat all employers equally. Employers will also be aware in advance of the factors which the Authority will consider in coming to decisions in regard to the use of these powers.

Debt Spreading Arrangements (DSA) and Deferred Debt Agreements (DDA)

5.6 These provisions are intended to make it easier to manage the exit of employers from the Local Government Pension Scheme. Currently some smaller employers such as charities are effectively trapped in the Scheme because the termination payment which becomes due when they decide to exit would effectively bankrupt them while they also struggle with the affordability of contributions. These provisions will not result in all these cases being addressed but they will allow some progress to be made with these issues and again provide a wider set of tools to address these situations.

5.7 The two different approaches are intended to provide options which will be appropriate to different employer circumstances. The first (the debt spreading arrangement - DSA) can be seen as a means of paying a traditional termination payment by instalments and is suitable for employers with no active members who wish to exit. The second, the deferred debt arrangement (DDA), may be suitable for employers who wish to exit but for affordability reasons do not wish to crystallise a termination debt. Again the Authority's policies will need to reflect consideration of the following::

- The circumstances where it will be prepared to consider the different types of arrangement and any criteria which it might apply for example in assessing employer covenant to determine the appropriateness of a particular arrangement,
- How the exercise of employer discretions should be handled where one of these agreements is in place.
- Processes for consulting any guarantors.
- The way any costs incurred by the Authority in making such arrangements will be dealt with.
- The framework within which the Authority will agree the timescales for the spreading of debt.

Methodology for Calculating Termination Payments

5.8 Intrinsically linked to these issues but not driven by the new flexibilities is a need to review the methodology used for calculating termination payments. This is currently based on using gilt yields as the discount rate within the calculation. Members will be aware that since the global financial crisis quantitative easing has impaired the functioning of the gilt market resulting in artificially low gilt yields. This results in termination payments which are significantly higher than might appear reasonable, even allowing for the fact that such payments should be calculated on a minimum risk basis. This means that some smaller employers who have developed significant surpluses in the Fund when assessed on an ongoing funding basis remain unable to afford an exit which would be a logical route for all parties involved. Such a situation is undesirable, although clearly the Authority needs to protect the interests of other employers by ensuring that any exit is sufficiently funded. This means that the discount rate for such payments must, in order to be on a minimum risk basis, be less than the discount rate used in the actuarial valuation. Beyond that there are a number of options available. As any change to the minimum risk basis would require a change to the Funding Strategy Statement it is necessary to consult employers on such a change, hence its inclusion here.

Consultation Process

5.9 At this stage it is proposed that the Authority resolve that it is minded to implement the various employer flexibilities and changes to the way in which termination payments are calculated. Officers will then, in consultation with the Fund Actuary and having regard to both the Statutory Guidance and the guidance from the Scheme Advisory Board, develop policies on which employers will be consulted with a revised Funding Strategy Statement being brought back to the June meeting for approval. Given the significance of these changes as well as the traditional method of sending the proposals to all employers one or two video conferences will be held to encourage engagement on these issues with employers.

Conclusion

5.10 The additional employer flexibilities provided by the revised LGPS regulations provide potentially valuable additional tools for the Authority to manage various aspects of employer risk and it makes sense to seek to implement them as soon as practical.

6 Implications

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

Financial	There are no direct financial implications arising from the proposals in this report. However, as indicated the Authority will need to develop clear and transparent policies around cost recovery where the employer flexibilities are used.
Human Resources	None
ICT	None
Legal	The Authority is looking to put in place a clear policy framework which minimises the risk for its decisions to be challenged by ensuring that it acts reasonably and treats each case on its merits. It is likely that the Authority will need to secure legal advice at various stages of any case being considered particularly in relation to the drafting of

	appropriate legal agreements in relation to the new exit flexibilities.
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**
The Local Government Pension Scheme (Amendment)(No2) Regulations 2020	https://www.legislation.gov.uk/uksi/2020/893/regulation/3/made
Statutory Guidance on Employer Flexibilities	Available from the Director SYPA Floor 8 Gateway Plaza
Scheme Advisory Board Guidance on Employer Flexibilities	Available from the Director SYPA Floor 8 Gateway Plaza

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 12

Document is Restricted

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