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Sarah Norman
Clerk

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NOTICE OF AUTHORITY MEETING

You are hereby summoned to a meeting of the South Yorkshire Pensions Authority to be held at Council Chamber, Town Hall, Barnsley on Thursday, 9 December 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
Email: gillrichards@barnsley.gov.uk

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Distribution

Councillors: J Mounsey (Chair), F Belbin, S Cox, D Nevett, M Stowe, N Wright, S Clement-Jones, D Fisher, M Havard, C Rosling-Josephs, A Sangar and G Weatherall (Vice-Chair)

Contact Details

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SOUTH YORKSHIRE PENSIONS AUTHORITY

THURSDAY, 9 DECEMBER 2021 AT 10.00 AM - COUNCIL CHAMBER, TOWN HALL, BARNSLEY

Agenda: Reports attached unless stated otherwise

SOUTH YORKSHIRE PENSIONS AUTHORITY

9 SEPTEMBER 2021

PRESENT: Councillor J Mounsey (Chair)

Councillors: S Cox, D Nevett, M Stowe, N Wright, S Clement-Jones, D Fisher, M Havard, C Rosling-Josephs, A Sangar and G Weatherall

Trade Unions: N Doolan-Hamer (Unison) and G Warwick (GMB)

Investment Advisors: A Devitt and L Robb

Officers: G Graham (Director), G Kirk, M McCarthy, Richards, S Smith (Head of Investments Strategy) and G Taberner (Head of Finance and Corporate Services)

G Kendall and A Stone (Border to Coast Pensions Partnership Ltd)

Apologies for absence were received from D Patterson and J Bailey

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Applogies were noted as above.

2 ANNOUNCEMENTS

None.

3 URGENT ITEMS

None.

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

RESOLVED – That Item 16 'Annual Review of the Border to Coast Pensions Partnership', Item 17 'Progress on the Agricultural Portfolio' and Item 18 'Advisor's Appraisal' be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None.

7 MINUTES OF THE ANNUAL MEETING MEETING HELD ON 10 JUNE 2021

RESOLVED – That the minutes of the Annual meeting of the Authority held on 10th June 2021 be agreed as a true record.

8 MINUTES OF THE ORDINARY MEETING HELD ON 10 JUNE 2021

RESOLVED – That the minutes of the Ordinary meeting of the Authority held on 10th June 2021 be agreed as a true record.

9 CHANGES TO MEMBERSHIP OF THE AUTHORITY

A report was submitted to inform Members of recent changes to the Membership of the Authority.

The Chair welcomed Cllr G Weatherall to the meeting.

It was noted that a new Vice-Chair would be appointed to replace Cllr Law once Sheffield CC's membership had been confirmed.

RESOLVED – That the report be noted.

10 Q1 CORPORATE PERFORMANCE REPORT

G Taberner presented the Corporate Performance report for Q1 2020/21.

Key points for the quarter were:

- Good progress on a range of corporate objectives in key areas of training and development and the office accommodation project.
- Fund value at a record high of £10.2 billion and funding level over 110%.
- Operational budget forecast showed sufficient resources available for key projects in 2021/22.
- Delays to delivery of some of the corporate plans including clearance of casework backlogs regarding aggregations and procurement of a new HR and Staff Payroll system.
- Increase in sickness absence levels compared to the previous quarter, although they remained fairly low overall.

Members noted a table within the report which provided updates in respect of developments in delivering the Corporate Plan and supporting strategies.

With regard to Pensions Administration, it was noted that the improvement in priority cases times was mostly attributable to improvements in reporting on death cases. 98% of death cases and 76% of retirement cases were processed within the 5 day target time.

In relation to non-priority case performance, high volumes of aggregation cases continued to account for the majority of 'late' cases. A project team was being established to focus on improving the effectiveness of processing in this area.

In answer to a question from the Chair regarding clearing of backlogs, the Director confirmed that some progress had been made albeit slowly. The backlog was not affecting processing of retirements or benefit payments.

Members were reminded that the budget for 2021/22 was set and approved at £5,445,600. The total budget requirement had not changed but it was now necessary to request approval for a small number of budget virements to reflect the planned expenditure on projects and the resourcing of that. These concerned the Oakwell House Project, the Investment Strategy budget and the Pensions Administration budget. Full details were set out in the report.

It was noted that there had been eight complaints during the period, six of which were outside the Authority's control.

Members noted the updated Risk Register which was attached as an appendix to the report.

The August review of the Risk Register resulted in two changes, namely 02 – Failure to meet statutory requirements for disclosure of information to scheme members and 05 – Disruption to services due to failure to complete the works required to Oakwell House on time and on budget. Full details were within the report.

RESOLVED – That Members:

i) Note the report.

ii) Approve the proposed budget virements to resource the delivery of key corporate priorities as set out in paragraphs 4.18 to 4.20 of the report

11A ADVISOR'S COMMENTARY

A Devitt provided a market commentary on recent events.

Highlights included:

- Vaccine roll out remained a mixed picture. The "vaccines as a path to full economic recovery" narrative seemed to have had a positive effect and had fuelled resilience in equity markets, particularly in the US.
- Interest rates remained at record lows and seemed set to remain there for some time, this was leading investors to seek alternatives to bond yields that were further eroded by inflation.
- The regulatory interference in China had hit Chinese stocks in the quarter.
- Supply chain disruptions remained which was shoring up prices and was still a key point to watch as an indicator of policy action.
- Geopolitical upsets, such as the Taliban regaining control in Afghanistan, did not seem to be impacting markets currently.

It was thought that the months ahead were likely to be characterised by volatility, uncertainty, complexity and ambiguity.

Inflation would be something to look out for and how companies were coping and what was the base level of consumer demand. Some profit taking and less market support in the equity market was expected which would cause the market to be more volatile and COP26, the UN Climate Change Conference in November, would be a key forum for setting environmental standards and expectations.

L Robb commented that all markets were priced relative to low interest rates and low inflation, if anything challenged that environment it would be a risk.

In response to a question from Cllr Wright, A Devitt commented that it was difficult to attribute any disruption to the pandemic or Brexit. Brexit repercussions were not thought to be a large threat to portfolios at the moment.

The Chair thanked A Devitt for the update.

11B INVESTMENT PERFORMANCE REPORT TO 30 JUNE 2021

S Smith presented the Quarterly Investment Performance report to 30th June 2021.

The report contained the valuation breakdown of the Fund showing the values across the different asset classes. This showed that at 30th June 2021 the Fund was valued at over £10bn and the funding level was 113.3%. For the quarter to the end of June 2021, the Fund returned 4% against the expected benchmark of 4.3%.

With regard to asset allocation, as equity markets continued to improve, profits were taken - £3.8m was raised from legacy holdings and used to fund the drawdowns into alternative funds. £100m was withdrawn from the Border to Coast overseas developed fund to reduce the overweight position to equities.

The report gave details of recent property transactions and the Fund allocation was shown in a chart against the strategic target. The changes in net investment for the categories over the last year was also included and showed that the Fund was being de-risked in line with the strategic benchmark.

Members were informed that over the quarter all Border to Coast's equity funds had underperformed their respective benchmarks. Looking at the longer term position, a chart within the report showed the performance of each of the Border to Coast funds held by SYPA since inception. It showed that four of the five funds had outperformed and matched the target return.

RESOLVED – That the report be noted.

12 BORDER TO COAST PRESENTATION

Andrew Stone and George Kendall gave a presentation from Border to Coast Pensions Partnership.

The presentation covered:

- Border to Coast's purpose and approach.
- Progress at Border to Coast.
- SYPA's Investments.
- Upcoming Fund Launches.
- Approach to Responsible Investment.

Following the presentation members asked questions about a range of issues raised in the presentation.

The Chair thanked A Stone for a very interesting and informative presentation.

13 Q1 RESPONSIBLE INVESTMENT UPDATE

Members considered the Responsible Investment Update for Q1 2021/22.

It was noted that highlight included:

- The casting of 6,110 individual votes as 411 different company meetings.
- A number of significant “say on climate” votes.
- The Authority, along with one other Border to Coast Partner Fund, casting its vote differently in relation to the Shell climate transition plan because of the lack of connection between that plan and the underlying business plan.
- An increase in the level of engagement activity in emerging markets.
- A continued high level of engagement around social issues as well as some increase in engagement around environmental issues driven by “say on climate”.
- A new engagement theme around post pandemic labour practices.
- Continued gradual improvement in ESG performance in all three of the equity portfolios with a noticeable positive impact from the restructuring of the Emerging Markets Fund.
- Continued reductions in all carbon emissions metrics with a highly material reduction in the Emerging Markets Fund, although it was clear that in isolation and without further action, those portfolios would not currently hit the 2030 Net Zero Goal.
- The inclusion of the Authority as a leading practice case study by external organisations in relation to both place-based impact investing and Net Zero.

The report contained detailed sections on engagement activity, voting activity, portfolio ESG performance, progress to Net Zero, collaborative activity and policy development and members asked a number of questions around the progress being made towards key objectives such as Net Zero.

RESOLVED – That the report be noted.

14 BORDER TO COAST PROPERTY POOLING PROPOSITION

A report was submitted which provided members with an update on the development of the Border to Coast property proposition and to gain approval for the required contribution to further development costs.

Members were informed that Border to Coast was proposing to launch Global and UK products which addressed the demand from partner funds.

Having considered feedback from partner funds around differences in risk appetite and return expectations, the Company proposed to launch two “fund of fund” structures. One would focus on Core and Core+ holdings, and the other with a higher risk/return balance would target Value Add and Opportunistic holdings which would involve more development risk.

The Company would need to secure an advisor to work with them on selecting the specific funds to hold within these products and this procurement would be part of the next stage of development.

It was noted that the Company and the Authority's Investment Advisory Panel were in ongoing dialogue over the detailed business case for the pooling of existing investments and those discussions would culminate in a recommendation later in the financial year.

Members were informed that the remaining development work would involve significant spend on legal and tax advisors to draw up the necessary documents for regulatory approval and create the required legal structures together with specialist support for the various procurement processes as well as the costs of a project team within the Company. The estimated contribution per partner fund was up to £0.5m which included a significant contingency.

RESOLVED – That members:

i) Note the progress being made in developing Border to Coast's property proposition and the proposed next steps for the Authority.

ii) Approve a contribution of £0.5m to the further development costs of the proposition.

15 <u>DECISIONS TAKEN BETWEEN AUTHORITY MEETINGS</u>

Exclusion ofA report was submitted which gave details of decisions taken as a matter of urgency between meetings.

It was noted that one decision had been required since the previous Authority meeting. This related to the casting of the Authority's shareholder vote on four resolutions at the annual general meeting of Border to Coast. The resolutions covered:

1. The approval of the Annual Report and Accounts.
2. The reappointment of KPMG as auditors.
3. The annual review of the conflicts of interest policy for directors.
4. The register of director's interests.

Having considered the advice of the Director and the views of the s41 members, the Chair had agreed that the Authority's vote should be cast in favour of all four resolutions.

RESOLVED – That members note the decisions taken between Authority meetings using the appropriate urgency procedures.

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.

16 ANNUAL REVIEW OF BORDER TO COAST PENSIONS PARTNERSHIP

A report was submitted which allowed members to review the performance of the Border to Coast Pensions Partnership and the Authority's arrangement for overseeing and engaging with the work of the Partnership.

RESOLVED – That members:

i) Note the views of the Independent Advisory Panel set out in Appendix A.

ii) Approve the recommended actions set out in Appendix A.

17 PROGRESS ON THE AGRICULTURAL PORTFOLIO

A report was considered which provided an update on activity associated with the Agricultural Property portfolio.

RESOLVED – That members:

i) Note the activity being undertaken in relation to the portfolio following the review considered by the Authority last year.

ii) Endorse the approach outlined within the report to "Project Chip" and delegate execution to officers in consultation with the Independent Investment Advisors

18 ADVISORS APPRAISAL

A report was submitted which provided an opportunity to appraise the performance of the arrangements in place for independent advice in relation to investment matters.

RESOLVED – That the report be noted.

CHAIR

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Changes to Membership of the Authority and Appointment of Vice-Chair**	**Status**	For Publication
Report to	Authority	**Date**	9th December 2021
Report of	Deputy Clerk		
Equality Impact Assessment	Not Required	**Attached**	No
Contact Officer	Gill Richards	**Phone**	01226 772806
E Mail	gillrichards@barnsley.gov.uk		

1. Purpose of the Report

1.1 To report on changes to membership of the Authority and the appointment of the Vic-Chair following the resignation of Cllr A Law.

2 Recommendation(s)

2.1 Members are recommended to:

a) Note the changes to the membership of the Authority.

b) Approve the appointment of Cllr G Weatherall as Vice-Chair of the Authority for the remainder of the Municipal Year.

3. Link to Corporate Objectives

3.1 **Effective and Transparent Governance**

It is important that the Authority ensures that appointments are kept up to date and are made in an open and transparent way.

4. Implications for the Corporate Risk Register

4.1 None.

5. Background and Options

5.1 On 30th July 2021 Cllr A Law resigned from Sheffield CC on ill health grounds, as a consequence of which his membership of the Authority ended. At its meeting on 6th October 2021 Sheffield CC appointed Cllr F Belbin to the Authority to replace Cllr A Law.

5.2 Furthermore, Sheffield CC nominated Cllr G Weatherall as s41 Spokesperson and consequently, given the rotation arrangements agreed with the District Councils, nominated Cllr G Weatherall as Vice-Chair of the Authority.

The current membership of the Authority is set out below.

Barnsley Councillors	**Doncaster** Councillors	**Rotherham** Councillors	**Sheffield** Councillors
M Stowe N Wright	S Cox J Mounsey D Nevett	D Fisher M Havard	F Belbin S Clement-Jones C Rosling-Josephs A Sangar G Weatherall

6. Implications

6.1 The proposals outlined in this report have the following implications

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

Martin McCarthy
Deputy Clerk

Gill Richards
Senior Democratic Services Officer

Background Papers	
Document	**Place of Inspection**

Subject	Programme of Authority Meetings 2022/23	**Status**	For Publication
Report to	Authority	**Date**	9th December 2021
Report of	Clerk		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Gill Richards	**Phone**	01226 772806
E Mail	gillrichards@barnsley.gov.uk		

1. Purpose of the Report

1.1 To consider the proposed schedule of Authority meetings during 2022/23.

2 Recommendation(s)

2.1 Members are recommended to:

Approve the schedule of meetings for 2022/23.

3. Link to Corporate Objectives

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

Effective and Transparent Governance

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

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

4. Implications for the Corporate Risk Register

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

5. Background and Options

5.1 Attached as an appendix to this report is a schedule of meetings for 2022/23.

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

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

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

6. Implications

6.1 The proposals outlined in this report have the following implications

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

Gill Richards Senior Democratic Service Officer

Sarah Norman Clerk

Background Papers	
Document	**Place of Inspection**

PENSIONS AUTHORITY MEETINGS 2022/23

Pensions Authority	Audit Committee	Authority Seminars	Local Pension Board
2022			
9 June (Annual)			
		30 June	
			14 July
	28 July		
8 September			
		15 September	
			13 October
	20 October		
		27 October	
		10 November	
8 December			
2023			
19 January			
			26 January
	2 March		
16 March			
			27 April

New Member Induction – 9 June 2022 before Annual meeting.

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

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Delivering for our Customers – Corporate Performance Report

Quarter 2 2021/22

Contents

1. Introduction

1.1 South Yorkshire Pensions Authority only exists to provide services to our customers whether they be scheme members or employers.

1.2 This Corporate Performance Report provides a summary view of overall performance in achieving the Authority's objectives; bringing together information on progress against the corporate strategy, a range of key performance measures, financial monitoring, and an ongoing assessment of the risks to the delivery of the Corporate Strategy. By providing this single view of how we are doing it will be easier for councillors and other stakeholders to hold us to account for our performance.

1.3 This report presents the information on overall performance during the second quarter of the 2021/22 financial year. More detailed information on the performance of the Authority's investments and the pension administration service during the quarter are contained in other reports which are available on the Authority's website.

2. Headlines

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

+	−
Good progress continuing on a range of corporate objectives.	Under-spends forecast against the budget - particularly staffing budgets due to 14% vacancy rate.
Fund value at a record high of £10.4 billion and funding level almost 115%.	Further increase in sickness absence levels compared to previous quarter and year; mainly driven by long term absences.
Operational budget forecast shows sufficient resources available for key projects in 2021/22, including completion of Oakwell House.	

3. Delivering the Corporate Plan & Supporting Strategies

3.1 This section provides information on the progress we are making on delivering the various strategies which form part of our corporate planning framework.

3.2 The latest update to the Corporate Strategy for the period 2021-2024 was approved in January 2021 and reflects the continuing journey to build a stronger, more resilient organisation focussed on delivering for our customers and capturing what we have learnt from having to adapt the way in which we operate to the COVID-19 pandemic. The detailed objectives and plans have been divided into programmes of work each led by a member of the Senior Management Team. These cover:

a) Services to Scheme Members and Employers (MS) – which is linked to the corporate objectives around Customer Focus, Listening to our Stakeholders, Valuing & Engaging Our Employees, and Scheme Funding;

b) Customer Service and Engagement (CS) - which is linked to the corporate objectives around Customer Focus and Listening to our Stakeholders;

c) Delivering the Investment Strategy (IS) – which is linked to the corporate objectives around Investment Returns, Scheme Funding and Responsible Investment; and

d) Supporting the Corporate Organisation (CO) – which is linked to the corporate objectives around Effective and Transparent Governance and Valuing & Engaging Our Employees.

3.3 The following tables provide updates in respect of developments that have taken place during the quarter in delivering these programmes of work, as well as updates in respect of activity that has taken place to deliver on the ICT, HR and Equality strategies.

Corporate Plan Deliverables 2021/22 to 2023/24	Start	Finish	Progress Update / Activity Quarter 2	On Target
[MS1] Complete procurement processes required for Pension Administration System to deliver: > Improved interface with employers including monthly data collection; > Improved member self-service; and > Process automation.	Dec-20	Mar-22	New contract with enhanced support and functionality due to commence in February 2022.	✓
[MS2] Implement regulatory changes arising from the McCloud and Goodwin judgements and the GMP rectification process.	Oct-20	Mar-23	Provider selected to support GMP rectification process. Work to commence in Quarter 3.	✓
[MS3] Clear residual backlog cases.	Feb-20	Jul-21	A new dedicated project team to be established in Q4 once the current round of recruitment for entry level pensions officers has been completed.	✗
[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.	Apr-21	Sep-22	Procurement process for actuarial services commenced this quarter, with focus on improvements to the timeline of the valuation process.	✓
[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.	Apr-20	Mar-22	Formal application of administration strategy in terms of notifications of potential fees for small numbers of persistent late submissions.	✓
[IS2] Implement revised approaches to reporting on the Authority's stewardship approach: > Adopt the revised FRC UK Stewardship Code and report in line with its requirements > Develop a framework for reporting the impact of the Fund's investments against the UN Sustainable Development Goals	Apr-20 Feb-20	Mar-22 Mar-23	Annual Report submitted to FRC for assessment. The impact reporting consultants, Minerva, continuing with data gathering from alternatives managers. Aiming for work to be completed prior to Christmas.	✓

Corporate Plan Deliverables 2021/22 to 2023/24	Start	Finish	Progress Update / Activity Quarter 2	On Target
[IS3] Implement the action plan for achieving Net Zero by 2030	Mar-21	Annual reviews to 2030	Border to Coast announced its own Net Zero Commitment and also made proposals for changes to the way in which the equity portfolios are run to reduce carbon exposure. Minerva work will support an initial whole portfolio picture and further work on target setting, which will be included in the March update.	✓
[CO1] Replace the Authority's Business Systems covering:				
> Financials (including removal of cheque acceptance)	Dec-20	Oct-21	As a result of workload pressures from other projects, a decision was taken to delay the go-live date by one month from Nov to Dec. The user acceptance testing is now substantially complete, and the system is due to go live in the first week of December 2021.	⇔
> Committee Administration (Modern.gov)	Mar-21	Sep-21	A new instance of Modern.Gov (Governance and Meeting Management solution), has been installed. All meetings content from the existing Joint Authorities Governance Unit site will be migrated to the new system. This will include a specific area for Border to Coast meetings.	✓
[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: > Fully revised appraisal system ready to be incorporated into the new HR system.	Apr-20	Mar-22	During the quarter, an internal audit review of HR Governance was undertaken, following up on the previous review in 2019. The results from this review will be used to inform the development of an action plan to further enhance the current appraisal process as far as possible pending the implementation of a new HR system.	✓
[CO4] Implement the preferred option for meeting the Authority's long-term accommodation needs, including a policy framework to support homeworking.	Dec-20	Dec-21	Building works contract awarded and works commenced in late August. An extension to the planned completion date was agreed to allow for supply chain delays (outside of our and contractors' control) to furniture and lighting delivery and to enable the installation of solar panels on the roof. Final completion date now Monday 6th December with plans in place for staff to start using the office from 8th December.	✓

Corporate Plan Deliverables 2021/22 to 2023/24	Start	Finish	Progress Update / Activity Quarter 2	On Target
[CO5] Replace website infrastructure to create a single web presence that better supports the organisation's communication and engagement strategies.	Jan-20	Sept-21	Development of the new corporate website is progressing well but has been subject to external dependencies. This will fully integrate with the new Modern.gov system to provide a seamless interface for all website users. Now expected to be complete in Q3.	✘
[CO6] Roll out Microsoft 365 to ensure the Authority has access to a regularly updated suite of core application software across the whole estate.	Jan-20	Dec-21	Working with a third party, the Authority now has a hybrid Microsoft Exchange environment. Next step is to commence migration of user mailboxes to Exchange online.	✓
[CO8] Replace the Authority's telephony infrastructure with a VOIP system capable of integration with *Teams / Microsoft 365* and the Pension Administration system.	Sep-20	Mar-22	A test system-build of the new cloud-based telephone system will be provisioned for the first week in October. New 'Direct Dial' numbers have been procured and assigned to users.	✓

3.4 Progress and activities undertaken in the quarter on the separate ICT, HR and Equality & Diversity strategies is shown below.

Information and Communications Technology Strategy	Activity this Quarter
Developing and maintaining our ICT infrastructure to meet the needs of an increasingly agile organisation.	Implementation of Microsoft Enterprise & Security (E&MS) is underway. This will control conditional access of the Microsoft 365 applications, thereby enabling the rollout of the Microsoft 365 mobile applications to personal devices (e.g., Mobile phones)
Using technology to deliver efficient business processes.	In-house development of a new application to improve the data accuracy and efficiency of the Employers Monthly Data Contributions process.
Keeping data safe and secure.	Using the NCSC Mail Check facility, we have implemented a DMARC (Domain based Message Authentication Reporting & Conformance) Policy to improve the security of emails. We have registered for the NCSC Early Warning Service. The service will automatically detect if one of our assets has been associated with malware communications, vulnerabilities or network abuse.

Human Resources Strategy	Activity this Quarter
Developing the Current Workforce to meet the Needs of the Organisation.	The Manager Development programme, that commenced last quarter, is continuing and feedback is positive. Two modules have been completed this quarter in line with the scheduled programme.
Recruiting a Workforce for the future.	A revised Recruitment and Selection Policy, along with an Exit Strategy and an Apprenticeship Framework, have been developed and been consulted on with SMT during the quarter. The next step is to consult with the Trade Union which is scheduled for Quarter 3.
Retaining a high-quality workforce.	Work has commenced on improving how we collect data from those employees who leave in terms of why they have left and what we might do to improve the experience of working for SYPA and how we might retain staff. Quarterly reporting on this to SMT will begin in Quarter 3 and will hopefully help to identify any areas where improvements can be made.

Equality and Diversity Strategy	Activity this Quarter
A diverse workforce that reflects the customers we serve.	The work done so far on updating the Recruitment and Selection Policies should be a better tool for attracting a wider range of applications; and this issue will be further considered as part of the next HR Strategy to be developed for 2022 to 2025.

4. How are we performing?

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

Corporate Measures

4.2 The level of sickness absence in the quarter and year to date is as follows.

Measure	Performance				
	Quarter 2 2021/22	Quarter 1 2021/22	YTD 2021/22	Prior Year: Quarter 2 2020/21	Movement Year on Year
Short Term Sickness Absence – Days Lost per FTE	0.68	0.58	1.26	0.35	
Long Term Sickness Absence – Days Lost per FTE	2.53	0.60	3.13	0.59	
Total Days Lost per FTE	**3.21**	**1.18**	**4.39**	**0.94**	

4.3 Sickness absence is reported as ‘Days lost per FTE’ rather than as a percentage and the measures are calculated as annualised figures to enable comparison from year to year.

4.4 For this quarter, days lost is 3.21 days per FTE employee, representing an increase of 2 days per FTE from the previous quarter. This is primarily driven by the increase in long term sickness absence in this quarter.

4.5 The increase in long term sickness absence is due to one continuing absence and three further absences this quarter – one of which was as a result of Long Covid. Three of the four employees returned to work in quarter 2 on phased returns and the fourth is due to return to work during quarter 3.

4.6 The Authority’s managing attendance policy has been refreshed and guidance provided for managers and staff; the data on the application of this policy is reported quarterly to SMT. The Authority’s Health, Safety and Wellbeing Committee continue to promote a range of initiatives to help support staff with their wellbeing. A series of webinars on topics including Men’s Mental Health, Dealing with the Menopause, Optimising Sleep and Mindfulness are scheduled to be delivered during quarter 3 and there are further activities to be undertaken in 2022.

4.7 It is our understanding that the increase in overall sickness absence levels that we are seeing compared to last year is something that is also being experienced in other local authorities in our region.

Investment Measures

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

Measure	Performance Quarter 2 2021/22	Quarterly Benchmark	Performance YTD 2021/22	2021/22 Benchmark	2021/22 Actuarial Target	RAG Indicator
Investment Return – Whole Fund	2.30%	1.10%	6.40%	5.50%	2.95%	

4.10 The outperformance was primarily due to the positive uplift in valuations of the alternative funds, in particular the private equity funds.

4.11 The total Fund value at 30 September was a record £10.4 billion and the estimated funding level at the end of the quarter was 114.9%.

4.12 At the end of the quarter, 62.6% of the Fund's assets were being managed in pooled structures provided by Border to Coast.

Pension Administration Measures

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

Measure	Quarter 2 2021/22	Previous Quarter 1 2021/22	YTD 2021/22	Previous Year: 2020/21	Target 2021/22	Movement Year on Year
Proportion of priority cases processed on time	76%	88%	82%	78%	100%	↑
Proportion of non-priority cases processed on time	72%	72%	72%	73%	100%	↔
Proportion of all cases processed on time	72%	75%	73%	73%	100%	↔
Proportion of employer data submissions on time	99%	99%	99%	99%	100%	↔

4.15 There has been a dip in performance on priority cases this quarter compared to last – this is attributable in part to a marked increase in sickness absence on the case processing teams but also a temporary diversion of resources to ensuring the Annual Benefit Statement exercise was completed in time. The performance year to date remains above that of the previous year.

4.16 Although employer submissions performance remains high, a few isolated delays have occurred towards the end of the quarter. These will be addressed through application of penalty fees in Quarter 3 if informal engagement does not prove effective.

4.17 At the end of the quarter, membership of the Fund stood at 167,684.

4.18 Five new employers were admitted during the quarter.

4.19 There were 550 participating employers with active members at 30 September 2021.

Financial Measures

2021/22 Quarter 2 Forecast Outturn

4.20 The quarter 2 performance and forecast outturn is as follows. Details of the significant variances are shown beneath the table.

South Yorkshire Pensions Authority Operational Budget	2020/21 Actuals £	2021/22 Revised Budget £	2021/22 Q2 Forecast £	2021/22 Q2 Forecast Variance £	2021/22 Q2 Forecast Variance %
Investment Strategy	631,420	539,760	541,510	1,750	0.30%
Pensions Administration	2,376,700	2,719,750	2,562,540	(157,210)	(5.80%)
Finance & Corporate Services	685,190	710,620	738,330	27,710	3.90%
ICT	560,960	667,200	655,930	(11,270)	(1.70%)
Management & Corporate	430,000	402,650	364,580	(38,070)	(9.50%)
Democratic Representation	118,180	142,620	124,460	(18,160)	(12.70%)
Subtotal - Cost of Services	**4,802,450**	**5,182,600**	**4,987,350**	**(195,250)**	**(3.80%)**
Capital Expenditure	42,600	1,630,000	1,630,700	700	0.00%
Subtotal before transfers to reserves	**4,845,050**	**6,812,600**	**6,618,050**	**(194,550)**	**(2.90%)**
Appropriations to / (from) Reserves	600,550	(1,367,000)	(1,172,450)	194,550	(14.20%)
Total	**5,445,600**	**5,445,600**	**5,445,600**	**0**	**0.00%**

4.21 The forecast under-spend for the year before transfers from reserves is (£195k) at quarter 2; a small increase on the quarter 1 forecast under-spend of (£181k).

4.22 The majority of the total under-spend relates to employee costs. Details of the variances on the individual service area staffing budgets are included in the analysis below. In short, this reflects the fact that we currently have 13.6 FTE vacancies, representing 14% of the total budgeted establishment of 97.1 FTE.

4.23 The detailed variances against budget for each of the service areas are explained below.

4.24 <u>Pensions Administration – Total Underspend Forecast (£157k):</u>

4.25 There is a total forecast under-spend on the employee costs budget of (£104k). This includes (£35k) relating to the budget for a training officer role that would have been filled by secondment from the benefits team as a way of providing the resource needed whilst offering a development opportunity, but this has not yet been taken up. The remaining balance of the total forecast under-spend on employee costs is due to staff turnover and vacancies across the service area.

4.26 It is currently estimated that the budgets for actuarial, legal and professional fees and corporate subscriptions will be under-spent by a total of (£35k) based on the known and anticipated expenditure requirements for this year.

4.27 Total savings of (£18k) are forecast across budgets for travel expenses, office-related expenses, catering, training courses, conferences, and subsistence, due to continued impact of remote working and knock-on effects from COVID-19.

4.28 Finance and Corporate Services – Total Overspend Forecast £27k:

4.29 The employee costs budget head includes two planned over-spends which will be financed by transfers from earmarked reserves. These over-spends are as follows.

4.30 An amount of £22k relating to agency staff costs as a result of hiring an interim accountant in the early part of the year to support the accounts closedown and audit process which was required as a one-off to provide cover whilst some of the permanent team members were working on the implementation project for the new finance system.

4.31 An amount of £11k relating to the HR Undergraduate placement student, the financing for this was set aside from the 2020/21 training and development budget into the corporate strategy reserve.

4.32 There are savings of (£18k) anticipated as a result of staff turnover / vacancies for the year – these have been used to fund additional costs of £17k on overtime that was required in the first half of this year due to having staff shortages at the same time as undertaking major projects to implement a new finance system and a new investment accounting system, and also produce the 2020/21 accounts and ensure the audit was completed successfully to the usual early timescale of 31 July, well ahead of the statutory deadline of 30 September.

4.33 There is a forecast saving of (£5k) across budgets for travel expenses, office-related expenses, catering, conferences, and subsistence due to continued remote working for the first half of the financial year and the knock-on effects from COVID-19.

4.34 ICT – Total Underspend Forecast (£11k):

4.35 The main reason for this underspend is that the budget for employee costs included resourcing for an ICT Apprentice but, due to various factors, the timing of this has now had to be rescheduled to 2022/23.

4.36 Management & Corporate Costs – Total Underspend Forecast (£38k):

4.37 The employee costs budget is forecast to be under-spent by (£13k) as a result of an unfilled vacancy in the post of Business Support Officer (Corporate). After two unsuccessful attempts to recruit to this post during the first half of the year, we have now recruited through an agency – to commence in December initially on a temporary basis. There is a related overspend of £5k forecast on the staff recruitment and advertising budget.

4.38 The organisational training and development budget was included as a growth item in the budget with effect from 2020/21 but due to the impact of COVID-19 and remote working, progress on the planned activities in this area has been slower than originally anticipated, and the available budget in 2021/22 of £55k is forecast to be under-spent this year by (£20k). Nevertheless, the planned work in this area is continuing to progress with a number of initiatives under way including a manager development training programme, implementation of the *LinkedIn Learning* platform, and an HR Undergraduate student now in post on a 12-month placement, which will provide the needed additional staff resource to support and take forward some of the plans around training and development including production of an e-learning package for new staff.

4.39 An under-spend of (£5k) is forecast due to savings made on insurance and central corporate services costs.

4.40 The external audit budget includes a forecast over-spend of £17k for audit fees payable to Deloitte LLP based on anticipated increases to be approved by the contracting body, Public Sector Audit Appointments Ltd (PSAA) – reflecting increased costs of audit delivery that are taking place across local government. This will be offset by a grant that will be paid to local authorities from the Department for Levelling Up Housing and Communities (DLUHC) for this purpose – the Authority is due to receive a grant of (£16k).

4.41 Additionally, the Authority has also received income of (£6k) from the PSAA in relation to a surplus distribution that is paid to all opted-in bodies to the national audit procurement arrangements.

4.42 Democratic Representation – Total Underspend Forecast (£18k):

4.43 There is a small under-spend of (£2k) expected on the Member Allowances budget due to turnover and changes in Authority membership following the elections in May 2021.

4.44 The budget for Authority running costs and training costs is forecast to be under-spent by (£13k) and the Local Pension Board budget by (£3k) due to the fall in expenditure for room hire, catering, travel, subsistence and conferences, mainly arising from the knock-on effects of COVID-19.

4.45 Capital Expenditure – Total Overspend Forecast £1k

4.46 The total forecast capital expenditure to be financed from revenue this year is £1,631k.

4.47 This total includes a forecast £185k for implementation costs of the new contract to commence in February 2022 for the pensions administration system. This represents a (£40k) under-spend against the amount that was estimated when setting the budget.

4.48 The remaining balance of forecast capital expenditure is £1,446k for the Oakwell House project; details of which are set out in the table below. This forecast represents an over-spend of £41k compared to budget, which is primarily due to additional costs for the installation of solar (PV) panels on the roof and variations added to the contract sum for costs of fire-stopping enhancements and works on the lift, both of which were essential for health and safety compliance and were only identified during the course of the refurbishment.

Item of Expenditure	Budgeted Cost £000	Forecast Cost at 10/11/21 £000	Variance £000	Variance %
Acquisition Costs - Legal Fees, Stamp Duty Land Tax, Surveys	20	16	(4)	(20.0%)
Design & Project Management	98	98	0	0.0%
Legal Fees - Tender Contract Documents Preparation	17	9	(8)	(47.1%)
Main Contract Sum	1,054	1,093	39	3.7%
PV Panels	16	30	14	87.5%
AV Fit Out	120	140	20	16.7%
Other Estimated Costs - including: Dilapidations Payment Gateway Plaza, Removals, ICT Installation etc.	60	55	(5)	(8.3%)
Contingency	20	5	(15)	(75.0%)
Total Project Cost	**1,405**	**1,446**	**41**	**2.9%**

4.49 Earmarked Reserves

4.50 The Authority has three earmarked reserves, the Corporate Strategy reserve, the ICT reserve, and the Capital Projects reserve.

4.51 The table at paragraph 4.53 shows the detail of planned transfers from the reserves in 2021/22 to finance the various projects being delivered as part of our corporate strategy.

4.52 Given that there continues to be a need to ensure the balance of reserves is kept to an adequate level going forward to meet resourcing requirements for specific corporate strategy objectives and for managing risk, it is proposed to transfer the forecast under-spend for 2021/22 into the reserves as set out in the following table.

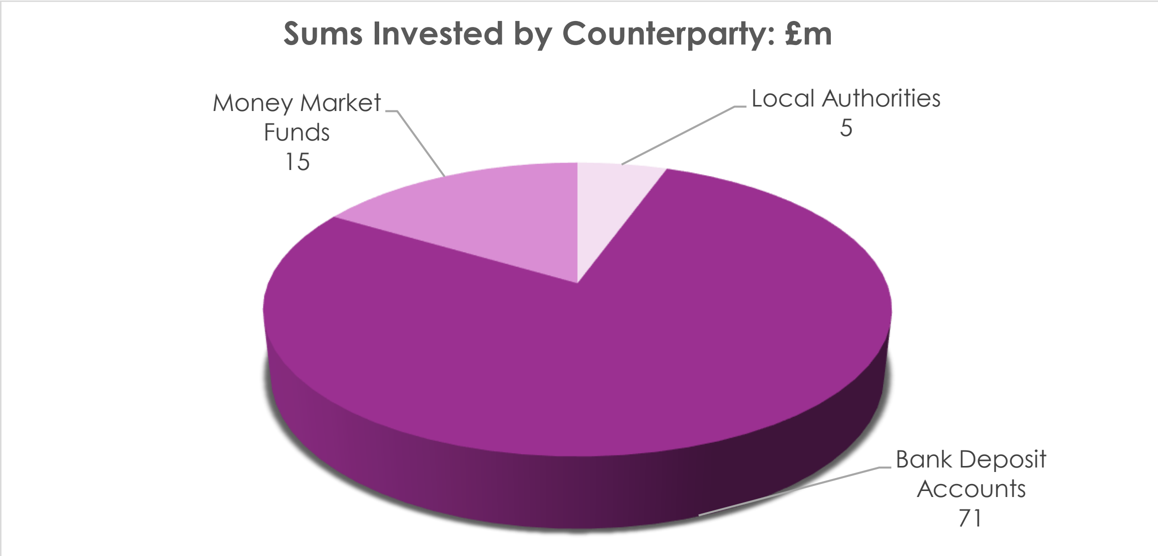
4.53

Reserves	Balance at 01/04/2021 £	Transfers In £	Transfers Out £	Forecast Balance at 31/03/2022 £
Corporate Strategy Reserve	238,500	120,000	(144,000)	214,500
ICT Reserve	118,300	60,000	0	178,300
Subtotal: Revenue Reserves	**356,800**	**180,000**	**(144,000)**	**392,800**
Capital Projects Reserve	1,254,470	52,020	(1,260,470)	46,020
Total Reserves	**1,611,270**	**232,020**	**(1,404,470)**	**438,820**

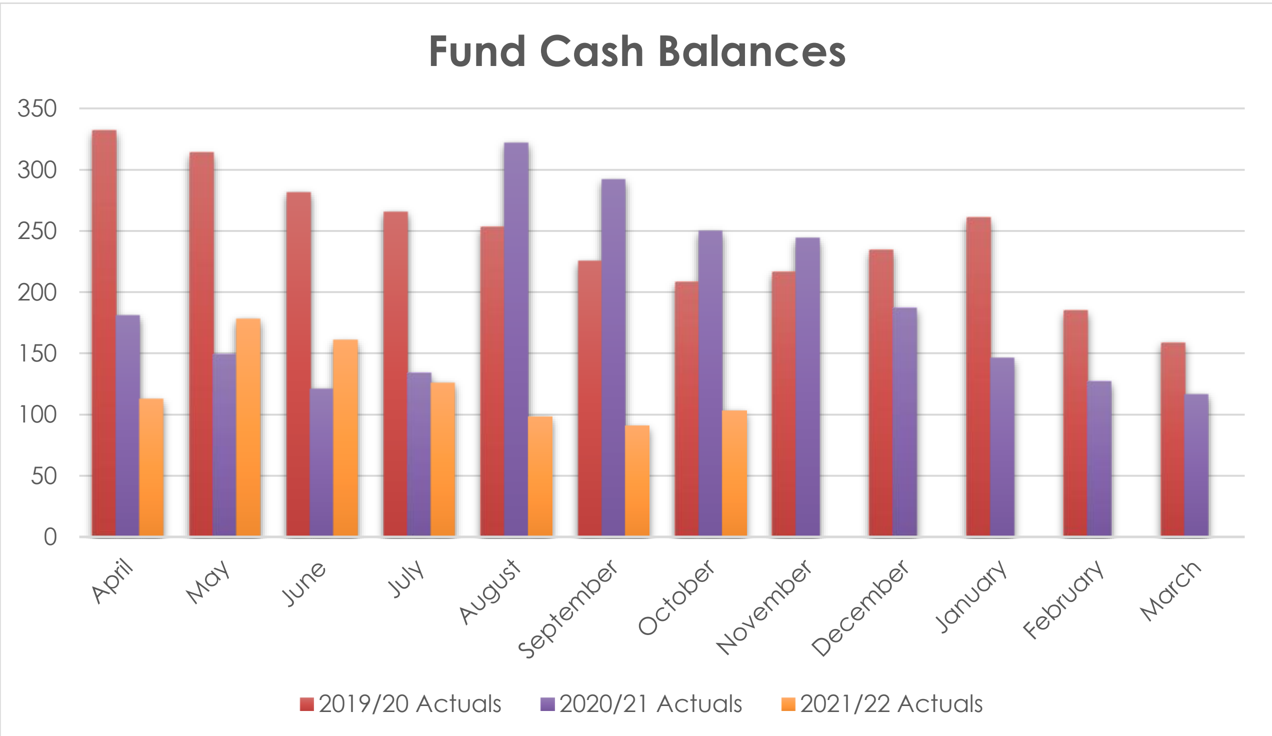
4.54 The balance of the revenue reserves following the transfers proposed for the year, would be £392,800 in total which equates to 7.2% of the Authority's total revenue budget.

Treasury Management

4.55 The Fund's cash balances at 30 September 2021 stood at £91m. The chart below shows how the balances have been invested with different counterparties in line with the approved treasury management strategy for the year.



4.56 The following chart shows the movement in cash balances held for the last two financial years compared to this financial year to date.



4.57 Cash is only held pending Fund investment and the balance of cash at the end of the second quarter represents 0.87% of the Fund, compared with 1.57% at 31 March 2021. The cash allocation remains well within the permitted range of 0% to 10% and is below the benchmark of 1.5% at 30 September due to timing of outflows and also the increase in the Fund value from the previous quarter.

5. What is getting in the way – Risk Management

5.1 We regularly review the things which might get in the way of us achieving our objectives – these are the risks that are set out in detail in the corporate risk register.

5.2 The Corporate Risk Register is attached at Appendix A. The October review of the register resulted in the following changes:

5.3 Removal of risk I3 – *Failure to implement effective arrangements for the oversight of investment management functions being undertaken by Border to Coast Pensions Partnership.* Given that the current level of risk meets the target level and that it is proposed to develop further mitigations, it is appropriate to now remove this risk from the register.

5.4 Reduction to risk I6 - *Contribution rates for employers are unaffordable due to business interruption.* Experience during the pandemic suggests that there are no new specific employer concerns, and it remains the case that no further requests for assistance in terms of ongoing contributions have been received from employers. On this basis the risk score has been reduced from 8 to 6.

5.5 Increase to risk P1 - *Failure to maintain a suitably qualified and experienced workforce which reflects the community which the Authority serves*. Increasing difficulties are being experienced in recruiting to fill vacant roles across the organisation. Further mitigations will be developed as part of the update to the HR Strategy. While these issues seem to reflect wider labour market trends, any solutions will need to be constructed within the constraints applying to the public sector. Consequently, the risk score has been increased from 9 to 12.

5.6 Further details and commentary regarding the review of the other risks, where scores have not changed, is provided in the risk register attached at Appendix A.

6. Learning from things that happen

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

	Received in Q2 2021/22	Received in Q1 2021/22	Received YTD 2021/22	Received in Previous Year: Full Year 2020/21
Complaints	5	8	13	17
Appeals Stage 1	4	0	4	8
Appeals Stage 2	0	2	2	8

6.2 A detailed report of complaints and action taken is provided to the Local Pensions Board for scrutiny.

6.3 Complaint levels returned to previous average following a spike in Quarter 1. Three of the five complaints were outside of SYPA control as they were a result of delays from employers or third-party providers.

6.4 One related to a delay in processing of an aggregation (joining of multiple LGPS records). Progress in resolving old aggregation cases (partly as a result of system issues identified with complex cases) has stalled so a dedicated project team will be set up as soon as the current round of recruitment of entry level pensions officers is completed - expected to be Quarter 4.

6.5 The second complaint was from a member who was incorrectly sent a quotation to transfer out of the scheme when her proximity to Normal Pension age prevented this. A process change has been made to prevent this recurring.

6.6 During the quarter, one appeal at Stage 2 was determined and rejected. This was an historic case dating back to the 1980's where the member had been successful in being credited with a refund of contributions at Stage 1 but was arguing for a retrospective transfer out of the LGPS at Stage 2 which was not upheld.

Breaches of Law and Regulation

6.7 We are required to maintain a register of breaches, the detail of which is reported to the Local Pension Board at each meeting as part of their oversight role.

6.8 There was one breach recorded in the quarter. A member of staff had returned a document in respect of a deceased member to the incorrect next of kin. This was an individual handling error and a new check stage has already been introduced to the document return process to minimise this risk.

Satisfaction Surveys

6.9 A survey of members retiring during May to July 2021 showed that of the 91 respondents, 92% were satisfied with the service they received.

6.10 The percentage of members satisfied with the service they received from telephone contact with the customer centre was 93% based on 451 respondents.

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South Yorkshire Pensions Authority Risk Register As At

13 October 2021

Key:

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

Risk Matrix

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

PROBABILITY

Risk Score

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

Risks currently under particular focus are:

Risk No	Risk Type	Risk Title	Current Score	Risk Change at Review
I3	Investment and Funding	Failure to implement effective arrangements for the oversight of investment management functions being undertaken by Border to Coast Pensions Partnership.	6	Removed
I6*	Investment and Funding	Contribution rates for employers are unaffordable due to business interruption	6	
O5	Operational	Disruption to services due to failure to complete the works required to Oakwell House on time and on budget	9	No change
P1	People	Failure to maintain a suitably qualified and experienced workforce which reflects the community which the Authority serves.	12	

SOUTH YORKSHIRE PENSIONS AUTHORITY RISK REGISTER AS AT 13/10/2021

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
G1	Governance	Failure to ensure that the elected Members knowledge and understanding of pensions related activities is robust and meets the statutory requirements in terms of Section 248a of the Pensions Act 2004.	Leading to ….. Improper scrutiny and challenge by elected Members; Mistakes, errors and omissions and non-compliance with statutory requirements; Failure to ensure contributions are collected; Failure to ensure benefits are calculated properly; Failure to ensure surplus monies are properly and prudently invested; Reputational damage in terms of censure from regulators.	Clerk to the Authority	Induction training provided to new Members which comprises a three day external training course; Programme of internal seminars; Periodic awareness presentations delivered to Members; A self-assessment framework for Members and Chairs is in operation but needs refining – this should assist in identifying training requirements; Lead member for training identified; Working to the spirit of CIPFA Code of Practice (Code of Practice on Public Sector Pensions Finance, Knowledge and Skills, revised in 2013 Production of Annual Report which includes commentary on Members training activities; External training augmented by internal training.	9	I = M P =M	2	I = L P = VL	Review of Member self-assessments. Addition of the Regulator's on line toolkit as a mandatory training requirement. Strengthen learning and development strategy ***Comment 12/10/2021: Given other resource constraints the intention is for the Independent Advisor to the Pensions Board to conduct interviews with each Authority member to identify specific individual learning needs. This will lead to consolidated learning plan. No justification for a change in the score at this stage.***	Clerk to the Authority Clerk to the Authority Clerk to the Authority / Director		12/10/2021
G2	Governance	Failure to ensure that the Local Pension Board is effective in carrying out its role.	Leading to ….. Ineffective scrutiny of the way in which the Scheme Manager (the Authority) exercises its responsibilities Action by the Regulator.	Clerk to the Authority and Director	Induction training and commitment to an ongoing programme of learning and development for all members. Introduction of an independent element to ensure that the Board is not "officer led". Stabilisation of Board membership.	6	I=M P=M	2	I=L P=VL	Additional learning development opportunities being provided. Self-assessment exercise conducted highlighting areas for improvement ***Comment 12/10/2021: Given other resource constraints the intention is for the Independent Advisor to the Pensions Board to conduct interviews with each Authority member to identify specific individual learning needs. This will lead to consolidated learning plan. No justification for a change in the score at this stage.***	Clerk to the Authority / Director		12/10/2021
G3*	Governance	Disruption and reduction in the effectiveness of the control environment	Remote working makes operation of baseline control arrangements more difficult or impossible Covid 19 infections reduce the numbers of staff available so that current controls cannot be operated	Senior Management Team	Adaptation of previous control arrangements to a remote working scenario to ensure that controls continue to operate in the first instance. Electronic workflows that accommodate staff absence in dealing with sign offs Ensuring that more than one person is capable of performing any task within a control process Ongoing review of staff absences at regular SMT meetings allowing risks to be highlighted early	6	I=M P=L	6	I=L P=M	Gradual extension of the number of processes where electronic workflows are used. Identification of staff who could be trained to provide cover in areas where resilience is lower than others ***Comment 12/10/2021: There is no evidence from Internal Audit that there has been a deterioration in control arrangements. Work is continuing to implement new major systems and as that comes to fruition there may be the opportunity to reduce the score further.***	Senior Management Team		12/10/2021

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
I1	Investment and Funding	Failure to ensure that the Authority has appropriate access to its cash resources to meet its commitments to make payments. (Liquidity and credit risk.)	Leading to ..... Financial loss; Negative impact on overall financial viability of the Scheme; Inability to meet pensioner payroll costs and investment commitments. Reputational damage.	Director	The Fund has immediate access to its cash holdings with the majority of cash being deposited for no longer than a week. Levels of cash holding are monitored daily. Treasury activity reviewed weekly by management and twice yearly by elected members with an annual review of limits. Treasury Management Strategy sets limits for the duration and risk profile of deposits with financial institutions. Triennial actuarial review considers contribution rates and cash flow requirements. New software available from the Actuary to assist with cashflows and funding level.	3	I = M P = VL	4	I = L P = L	Introduction of quarterly reporting of treasury activity to elected members. Consideration being given to splitting frictional cash (required for day to day purposes from cash awaiting investment). ***Comment 12/10/2021: No change from the previous assessment. Cash holdings remain below their peak level, and lower than has previously been the case, with a regular flow of income being captured to ensure the level of "float" remains stable.***	Director		12/10/2021
I2	Investment and Funding	Failure to maintain the gains in funding levels achieved since the 2016 valuation, either as a result of falls in the market value of investments or an increase in the value of liabilities.	Leading to ..... The need to maintain high (and possibly unaffordable) levels of deficit contributions. The need to increase future service contribution rates which may create financial difficulties for employers given the economic environment in which they operate. Critical review by the Government Actuary as part of their s 13 Valuation.	Director/ Head of Investment Strategy	The Investment Strategy already looks to shift out of more volatile "growth" assets into less volatile income earning assets.	8	I = H P = L	4	I = H P = VL	First principles review of the Investment Strategy to be undertaken alongside the triennial valuation from April 2019 for implementation from April 2020. Options for containing or reducing liabilities (e.g. a trivial commutation review) will be examined following the actuarial valuation. However, in the meantime data cleansing activity will be focussed on areas that impact the value of liabilities. ***Comment 12/10/2021: No change from the previous assessment. The strong performance of equity investments has resulted in a regular process to rebalance away from equities in effect taking profit and investing it in other asset classes. However, the pace of build up of these other investments is generally less than the rate of growth in the equity portfolio thus the level of risk remains unchanged.***	Director/ Head of Investment Strategy		12/10/2021
I3	Investment and Funding	Failure to implement effective arrangements for the oversight of investment management functions being undertaken by Border to Coast Pensions Partnership.	Leading to ..... Inability to adhere to Authority policies and potentially not be able to fulfil the Investment Strategy.	Head of Investment Strategy	Border to Coast is an FCA regulated body and as such is expected to adhere to the Stewardship Code and work within stipulated guidelines as set out in prospectus. These guidelines were set with discussion with underlying funds. Alignment of policies with underlying fund policies Ensured that Border to Coast have sub funds to allow SYPA to fulfil its strategy. Ongoing collaboration about policy. Ongoing collaboration regarding potential changes to Authority strategy. Analysis of investment performance on a monthly/quarterly basis with detailed analysis on an annual basis.	6	I = M P = L	6	I = M P = L	Border to Coast have agreed a process for the provision of controls assurance with all the audit firms involved in the LGPS. ***Comment 12/10/21 Given that the current level of risk meets the target level and that it is proposed to develop further mitigations it is appropriate to now remove this risk from the register.***	Head of Investment Strategy		12/10/2021
I4	Investment and Funding	Failure to secure products through Border to Coast which address the requirements of the Fund's investment strategy.	Leading to ..... Failure to achieve required investment return. Erosion of the overall value of the Fund. Negative impact on contribution rates at valuation points.	Head of Investment Strategy	Ongoing dialogue with both Border to Coast and partner funds in order to influence product development. Monitoring of developments in the market place and where appropriate championing these within discussions with Border to Coast and partner funds.	4	I = H P = VL	3	I = M P = VL	Engagement with Border to Coast as an "implementation partner" in the development of the investment strategy. ***Comment 12/10/2021: No change from the previous assessment. Any change will depend on the finalisation of the property proposition***	Head of Investment Strategy		12/10/2021

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
I5	Investment and Funding	Impact of Climate Change on the value of the Fund's investment assets and its liabilities. Changes in the liability profile of the Fund.	Leading to …… An increased gap between the value of assets and liabilities. Reduction in the level of investment income as companies failing to adapt to a low carbon economy become less able to pay dividends. Changes in the liability profile of the Fund.	Director and Head of Investment Strategy	Climate Change Policy in place in addition to the Responsible Investment Policy, supported by engagement activity with investee companies to encourage a planned and more rapid transition to a low carbon economy. Ongoing monitoring of the carbon intensity of equity portfolios every other year in place Lower carbon tilt adopted within the equity portfolios and continued by Border to Coast. Investment in the extended opportunity set provided by the move to a low carbon economy targeted within the Alternatives portfolio, particularly infrastructure. Ongoing monitoring of demographic data by the actuary in place..	15	I = VH P = M	9	I = M P = M	Product from the Border to Coast Climate working party including providing more regular measurement of the carbon intensity of portfolios. Consideration of alternative investment approached as part of the Investment Strategy Review. Scenario planning within the context of the ongoing development and review of investment strategies. Adoption of a "net zero by 2030" goal together with improvements in impact reporting to fully understand the scale of emissions. ***Comment 12/10/2021: No change in assessment. Updated data for the equity funds indicates significant reductions in emissions. However these do not put the fund overall on a trajectory to meet the Net Zero Goal and consideration will need to be given to the additional levers available beyond the work on the investment process for the equity funds already in hand.***	Head of Investment Strategy Head of Investment Strategy Director Director		12/10/2021
I6*	Investment and Funding	Contribution rates for employers are unaffordable due to business interruption	Employers (particularly TAB's and CAB's) unable to meet their liabilities due to not receiving income as a result of the interruption of their business due, for example, to school closures.	Head of Pension Administration	Existing assessment of employer risk and covenant identifying higher risk employers Ongoing communication and dialogue with employers and the Fund Actuary to identify possible options.	6	I = L P = H	8	I = L P = H	Identification of the applicability of the policy responses for private sector DB schemes to LGPS and engagement with the Scheme Advisory Board Implementation of new regulations allowing interim valuations and increased flexibility around exits ***Comment 12/10/2021: Experience during the pandemic suggests that there are no new specific employer concerns and it remains the case that no further requests for assistance in terms of ongoing contributions have been received from employers. On this basis the risk score has been reduced from 8 to 6.***	Head of Pension Administration		12/10/2021
I7*	Investment and Funding	Business continuity failures mean employers are unable to meet contribution payment deadlines.	Employers unable to submit monthly data returns on time which from April 2020 will generate the input for direct debit payments. Disruption to Fund cash flow	Head of Pension Administration and Head of Finance and Corporate Services	Ongoing dialogue with employers to identify problems early. Maintenance of significant available cash balances through the Treasury Management portfolio	3	I = VL P = M	4	I = L P = L	Enhanced monitoring of contribution receipt and cash flow Redirection of Engagement Officer resource to maintain contact with employers to provide early warning of issues Focussed support to employers with the greatest difficulties, for example support with data submissions ***Comment 12/10/2021: There has been a slight deterioration in timelines of employer submissions which is being managed proactively on an employer by employer basis. At this stage no reduction in score can be justified.***	Head of Finance and Corporate Services Head of Pension Administration Head of Pensions Administration		12/10/2021

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
O1a	Operational	Failure to ensure the Authority protects the data it owns and the data it handles against inadvertent release	Leading to ..... Loss of personal information resulting in reputational damage and censure by Information Commissioner; Loss of trust from partner organisations; Successful attacks by hackers or third parties; Disruption and delays.	Director	Data backup undertaken daily and backed up information removed from site; Disaster Recovery Procedures and Business Continuity Plan in place; External audit by third party organisations the Authority works with; Reporting of Incidents to Information Commissioner; Information Governance training included in the training programme; Independent Data Protection Officer established ; Contract management arrangements regarding the software provided by SY Pensions to third parties includes performance management consideration; Physical security of offices improved following relocation to Gateway Plaza	**8**	I = H P = L	**6**	I = M P = L	Bi Annual review of Business Continuity Plan. Data breaches reported to Local Pension Board quarterly for scrutiny. Data Protection Officer Assurance programme introduced. Reduction of in-house 'manual' mailing of personal data. Move to secure online communications with members where possible (e.g. Annual Benefit Statements). ***Comment 12/10/21 - additional checking procedures introduced for return of documents to minimise data risk.***	Corporate ICT & Digital Manager Head of Pensions Administration Head of Pensions Administration Head of Pensions Administration		12/10/2021
O1b	Operational	Failure to ensure the Authority protects the data it owns and the data it handles against cyber-security threats.	Cyber risk – the risk of loss, disruption or damage to the Authority or its staff/members due to its information technology systems and processes failing. Including risks to information, data security, as well as assets and both internal risks from staff and external risks from hacking and computer misuse.	Director	Cloud based email management platform including targeted threat protection against email borne threats such as malicious URL's, malware, impersonation attacks and internally generated threats; ICT Security Policy and an effective system of governance in place; Mandatory GDPR/data protection and cyber security training for all staff; Comprehensive Patch Management Policy covering all desktop and server hardware/software; Annual ICT health checks and penetration testing via a CREST certification body; Cyber Essentials Plus Accreditation; Police vetting clearance for ICT staff; The principle of least privilege applied to all user accounts.	**8**	I = H P = L	**6**	I = M P = L	Cyber Security training identified for all staff; Develop an incident response plan to deal with incidents and enable the Authority to swiftly and safely resume operations; Establish an Incident Response Retainer; Migration to advanced cloud based Anti-Virus/End Point Protection solution; Database encryption of sensitive data. Penetration testing using mock "spearfishing" attacks being undertaken SMT approved additional training and implementation of new password policies ***Comment 12/10/2021: Since the last review the following actions have been implemented/established:*** ***New Cyber Security Reporting Policy and Incident Management Policy*** ***New password policies and guidance*** ***Simulated spear phishing campaigns to test users.*** ***Other new control measures also include:*** ***•Utilise 2FA for VPN/Cloud accounts*** ***•Implement a DMARC (Domain-based Message Authentication, Reporting and Conformance) policy*** ***•Implement an automated Vulnerability Scanning service.*** ***Despite all of the above measures the impact of an*** ***Other new control measures also include:*** ***•Utilise 2FA for VPN/Cloud accounts*** ***•Implement a DMARC (Domain-based Message Authentication, Reporting and Conformance) policy*** ***•Implement an automated Vulnerability Scanning service.*** ***Despite all of the above measures the impact of an attack would still be high and as a result there is not justification to lower the score at this stage.***	Corporate ICT & Digital Manager		12/10/2021

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
O2	Operational	Failure to meet statutory requirements for disclosure of information to scheme members.	Leading to ..... Poor customer service and reputational damage. Censure and potential fines from the Pensions Regulator and other statutory bodies; Potential for inaccurate data to flow into the 2019 actuarial valuation process and to impact the correct calculation of member benefits.	Head of Pensions Admin	Production of the ABS is dependent on receipt of timely returns from employers. The updated Administration Strategy from March 2018 incorporates SLA's and improves upon them in terms of fines being levied for employers who are non-compliant; Production process for 2018 was brought forward to ensure sufficient contingency time; Joiner/leaver processes configured to meet statutory disclosure requirements.	**6**	I = M P = L	**2**	I = L P = VL	Introduction of monthly data collection from April 2018 removes reliance on year-end returns so production process will begin in June rather than July from 2019; ABS's to be issued online from 2019 which further reduces the production schedule and process can be managed fully in house; Administration performance reporting to Authority to focus on statutory compliance. Data Quality Improvement Plan to be implemented. Review of ABS process in light of 2020 issues including the quality (as opposed to timeliness) of monthly data submissions. ***Comment 12/10/2021: ABS exercise completed in 2021 with 100% compliance following implementation of 'lessons learnt' from 2020 exercise. Responsibility for data preparation passed from Systems to Benefits Team to improve capacity for future.***	Head of Pensions Administration		12/10/2021
O3	Operational	Closure of Government Guaranteed Minimum Pension service and reconciliation exercise.	Leading to ..... Significant under/overpayments of existing pensions in payment causing member hardship and reputational damage; Workload pressures of adjustment to excess volumes of member records. Failure to maintain adequate records going forward.	Head of Pensions Admin	Reputable external provider appointed to meet initial HMRC deadline of 31 October 2018; External provider currently handling responses finally received from HMRC to all mismatch queries raised. The final report from HMRC will allow the external provider to carry out a full final reconciliation across the database before we move to rectification. The final reconciliation is expected to be a two month project.	**12**	I = H P = M	**6**	I = M P = L	Liaison with LGPS funds to aim to ensure consistent approach to rectification once reconciliation finalised. Assurance work to be commissioned once HMRC issue final liability report ***Comment 12/10/2021: External provider selected to assist with completion of rectification exercise. Eight month project commencing November 2021.***	Head of Pensions Administration		12/10/2021

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
O4*	Operational	Significant reduction in productive capacity due to impact of the virus on sickness levels	Creation of backlogs of work and potential for missing key deadlines. Potential for backlogs of retirements to result in financial hardship and large arrears payments. Potential for backlogs of death cases to result in the need to recover large overpayments Failure to meet statutory deadlines for case processing and for issue of Annual Benefit Statements.	Senior Management Team	Monitoring of sickness levels and productivity through regular SMT Business Continuity calls. Clear criteria within which casework is prioritised. Risk of compliance failures raised with TPR at national level with request to consider flexibility if required. Annual Benefit Statement exercise to start in May rather than July to balance workloads.	**6**	I=M P=L	**12**	I=M P=H	Reassessment of priority activities to concentrate on those activities that directly impact: -The retirement process -Pensioner deaths and deaths in service -Payment of staff and supplier -Collection of all forms of income Redeployment of resources from support areas (Engagement, Technical UPM Team) to casework and from other corporate areas to financial processing. ***Comment 12/10/2021: There are still a small number of long term non work-related sickness absences. These staff are being supported on an individual need basis. Sickness levels will be monitored over the winter period to assess any spikes , if there is no major impact then this risk will be removed at the next review of the risk register.***	Senior Management Team		12/10/2021
O5	Operational	Disruption to services due to failure to complete the works required to Oakwell House on time and on budget	This would require all staff to work at home for an additional period and there could be disruption and additional cost if the server infrastructure cannot be relocated before the end of the current lease.	Director	Key contract deliverable for the main contractor is aimed to facilitate relocation of the data centre prior to the end of the current lease even if the building works are not completed. Contract documents will be issued with as detailed a price as possible which should have the effect of mitigating the cost risk.	**9**	I=M P=M	**6**	I=M P=L	Further mitigations will become available when the contract for the main contractor has been agreed at which point the budgetary issues will become clear ***Comment 12/10/2021: The build element is progressing well; however, due to market delays, not all equipment will be in place at handover. Arrangements are in place to manage this with staff working from home to enable the full office mobilisation. The relocation of the data centre is on programme and no downtime is expected. There is still a potential for unforeseen elements of cost to come from the building works and at this stage no reduction in the score is justified .***	Director		12/10/2021

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
P1	People	Failure to maintain a suitably qualified and experienced workforce which reflects the community which the Authority serves.	Leading to ..... Continuing imbalances in the Authority's workforce which create the potential for a sudden loss of a significant amount of experience. Skills gaps through a lack of succession planning. Reputational damage through criticism of the lack of diversity in the workforce. Impact on productivity and organisational resilience.	Director	A structured career grade scheme supported by highly structured and exam based training is in place for a key group within the pension administration workforce. Procedures within pension administration are well documented. Identification of potential single points of failure and production of plans to eliminate them. Production of an HR and Organisational Development Strategy targeting these issues.	**12**	I = M P = M	**6**	I = L P = M	Full implementation of the HR and Organisational Development Strategy. Formalise workforce and succession planning arrangements Implement Management. Development Programme covering all staff with supervisory and wider management responsibilities. Identification of potential single points of failure and production of plans to eliminate them. ***Comment 12/10/2021: Increasing difficulties are being experienced in recruiting to fill vacant roles across the organisation. Further mitigations will be developed as part of the update to the HR Strategy. While these issues seem to reflect wider labour market trends, any solutions will need to be constructed within the constraints applying to the public sector.*** ***Current score has been increased from 9 to 12*** .	Director		12/10/2021

Subject	Levy 2022/23	Status	For Publication
Report to	Authority	Date	9 December 2021
Report of	Treasurer and Director		
Equality Impact Assessment	Not Required	Attached	N/a
Contact Officer	Gillian Taberner Head of Finance & Corporate Services	Phone	01226 666420
E Mail	gtaberner@sypa.org.uk		

1 Purpose of the Report

1.1 To approve the Levy for 2022/23 under the Levying Bodies (General) Regulations 1992.

2 Recommendations

2.1 Members are recommended to:

a. Approve a total levy of £350,000 for 2022/23 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 2022/23.

3 Link to Corporate Objectives

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

Effective and Transparent Governance

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

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

4 Implications for the Corporate Risk Register

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

5 Background and Options

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

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

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

5.4 The 2022/23 Levy has been calculated as £350,000; a reduction of £11,000 compared to the 2021/22 Levy.

2021/22 Levy	361,000
2021/22 Forecast Actual Cost	342,000
Estimated Refund Due to Districts for 2021/22	**19,000**
2022/23 Levy	**350,000**

5.5 The estimated apportionment of the 2022/23 Levy, based on 2021/22 Council Tax Base shares, is shown in the table below. Please note the actual apportionment will be re-calculated to reflect the approved 2022/23 Council Tax Base figures for each district as soon as this information is available.

	2022/23 Levy Estimates	**Proportion**
Barnsley MBC	63,978	18.28%
Doncaster MBC	81,225	23.21%
Rotherham MBC	69,406	19.83%
Sheffield City Council	135,391	38.68%
Total	**350,000**	**100.00%**

6 Implications

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

Financial	The issuing of the levy to the four districts enables the Authority to recover costs relating to the former SYCC / Residuary Body.
Human Resources	None
ICT	None
Legal	The Levy approval as outlined in this report ensures that the Authority complies with The Levying Bodies (General) Regulations 1992.
Procurement	None

Neil Copley **George Graham**

Treasurer **Director**

Background Papers	
Document	**Place of Inspection**
None	

Table of Contents

The Winds of Change

As summer came to an end news flow became dominated by energy prices, supply chain shortages, and the anticipation of the UN Conference of the Parties (COP26) in Glasgow that started in late October. Inflation remained at elevated levels, but if the Bank of England's forecast is to be believed, the worst is yet to come. Interest rates are still at historic lows, although economic activity remained strong as Covid outbreaks were not initially followed by renewed lockdowns or restrictions. This looked set to change maybe with the labelling of the South African coronavirus strain as a "variant of concern" and with a surge of cases in European countries. Geopolitically, all eyes were on COP 26 in Glasgow, which saw a flurry of multi-lateral commitments to ending deforestation, methane reduction and green finance. The holdouts were obvious as China, Russia and India sat on the sidelines while the focus on "energy security", by China in particular, underscored the tensions between the desire to decarbonize and the thirst for electrical power.

As the end to the year nears, there is still a stubborn resilience in developed markets and another year of disappointment for emerging markets in the books. With performance flat to negative in those markets for 2021, and the spectre of regulatory "whiplash" from China as well as a stark disparity in vaccination rates compared to developed nations, all international diversification is not created equal. Meanwhile dollar strength continued while Sterling weakened as expectations for a rate rise were recently dashed.

Highlights:

- **Low interest rates and naggingly high inflation combined to create confident expectations of an upwards move by the Bank of England at their early November meeting – these expectations missed the mark however, and Sterling fell as UK rates were maintained at their historic lows of 0.1%.**

- **Supply chain issues and labour shortages continued to plague manufacturing and high energy prices remain a strain on input costs. Reports of factory closures, particularly fertilizer manufacturers as well as energy companies in distress underscored the high dependence on energy and indeed globally, blackouts as in China, emphasized the importance of "energy security" around the world.**
- **As Covid's impact continues to muddy the post-Brexit economy, an ongoing fishing row and labour shortages were reminders of the complex implications of the move which are still "work in progress".**
- **The regulatory interference in China has continued to cast a pall over Chinese stocks, as well as the ripple effects of the Evergrande default, one of the world's largest property developers.**
- **COP26 garnered a huge amount of media attention, and those countries who sat out (China, India and Russia) attracted as much attention as it served as a reminder of the inherent conflict in many of the conference's goals – especially with developing economies still committed to coal-fired production.**

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Current Macro Snapshot

Market strength continues

The message is little changed from last quarter in terms of market performance – while September was a negative end to the third quarter for most markets, October saw a renewed enthusiasm, and strong company earnings as well as a smattering of hype from COP26 underpinned markets. Facebook's fortunes took a dip down, but they took control of the narrative in late October by announcing a name change – to "Meta". November saw a sharp downturn on the day after Thanksgiving – as Black Friday turned into a sea of red. The spectre of renewed travel restrictions – in this case with flights limited from southern African countries sent the Dow Jones tumbling by over two percent and US indices had their worst trading day in 2021.

Markets remain broadly strong though, and as to the question of whether the current equity market strength can last, it is useful to point to the amount of "dry powder" or cash still sitting on the sidelines. The chart below, which shows the volume in money market funds (figures only available for the US), is a useful barometer of that. While off its record, the chart shows that levels of cash are still extremely high relative to historical levels. This may explain why equity market weakness has been so short-lived – as cash is redeployed to "buy on weakness".

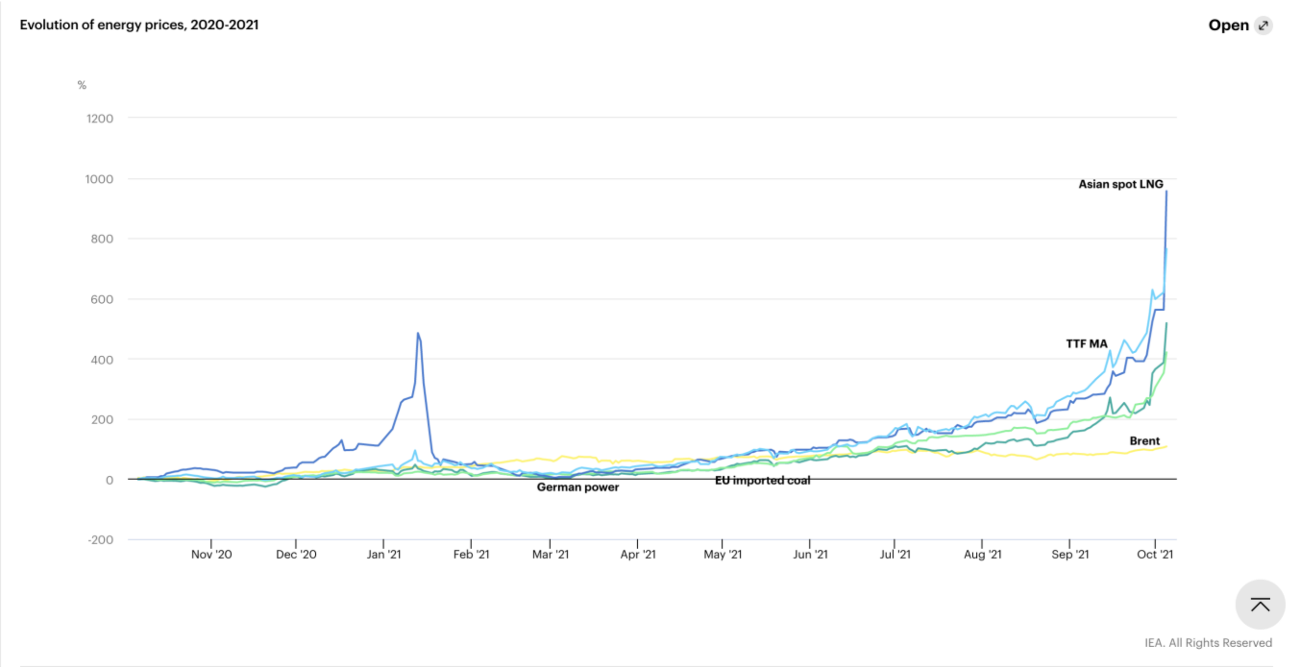
Dollar Strength also Persists

A strong dollar will have shored up internationally diversified portfolios and a weaker Sterling did not dent the fortunes of the FTSE to a great degree. The dollar has remained strong this year (see chart below).

Inflation – A Calm Before the Storm?

Last quarter we mentioned that the strength of Sterling in recent months had dulled the impact of "imported" inflation, but the recent reversal in Sterling will have re-introduced the potential for that. The Bank of England itself even admitted that inflation was likely to get worse before it gets better and conceded that the "cost push" nature of it would render their ability to control inflation through monetary policy essentially moot. Currently the Bank is forecasting levels to hit 5% in 2022, which might, in relative terms represent a higher rate than the recently reported US level of 5.4% due to the higher base level – i.e. the US rate is still compared to the relatively low level of activity in 2020, but the levels in 2022 will be compared to 2021, when economic activity had already increased.

The global nature of recent rises in energy prices is starkly evident in the chart below.



Brexit Update:

The aftermath of Brexit discussions continued to feature tense negotiations around Northern Ireland's future, as EU and British delegations were deep in discussions as to how free flow of trade between Britain and Northern Ireland could continue. Customs controls and health checks on animal and plant products exist as part of the trade deal, through which Northern Ireland remains in the single market for goods.

The effect of these disruptions has been felt for some time in Northern Ireland but the chance of Britain triggering Article 16, which would allow them to take unilateral "safeguard measures" to suspend part of the deal based on "serious economic, societal or environmental difficulties". The dispute regarding post-Brexit fishing rights was also still brewing, while uncertainty and strains on the supply chain continue to impact businesses on both sides of the channel.

Individual Asset Class Performance.

- Equities
- Fixed income
- Other asset classes

Equities: Records still being broken

In the UK November has been a negative month so far, although year to date performance is a deent 9%, which is still lagging other developed markets and its neighbouring European markets too, which soared to highs of their own driven by oil and pharmaceutical companies.

In the US, markets continued be strong with the S&P, the DJIA and the Nasdaq all reaching new highs earlier in the month of November. The S&P is showing 22% year to date return, and but is now flat for the past monthly time period. The recent boost came from a strong October jobs report, which beat expectations and showed that the pace of hiring had picked up as fears about the delta variant faded. The vaccine manufacturers saw diverging fortunes with Pfizer boosted by the pending rollout of the jab to the 5-11 year old cohort as well as the announcement of its experimental treatment (a pill). Moderna on the other hand saw an extended multi-day slump as it cited shipping delays as likely to slow the rollout of its vaccine.

An interesting twist in markets was the extraordinary boost that certain newsflow, particularly around the expected policy changes relating to green energy, had on individual results. Tesla saw its valuation pass $1 trillion as there was simply the announcement (subsequently contested by Elon Musk) that Hertz had simply ***ordered*** 100,000 EVs.

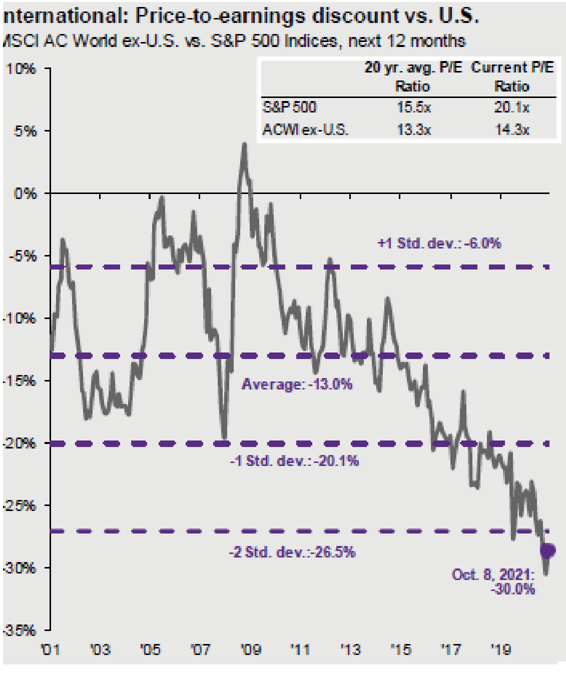
Hyperdrive

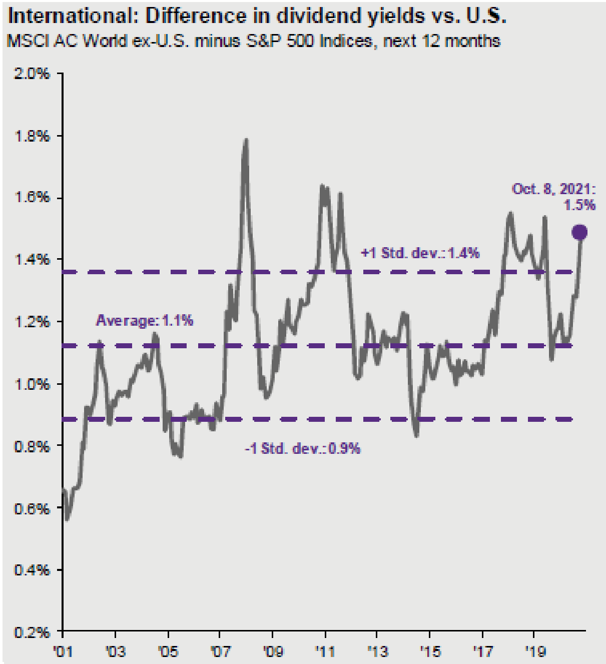
Hertz Order for 100,000 EVs Sends Tesla Value to $1 Trillion

It is worth remembering that Hertz only emerged from bankruptcy 4 months ago following its own Covid-related travails, and that a demand shortage has never been the constraint in EV sales – rather component parts and the supply chain. Just this past week we saw a similar move in the price of Avis, another rental company, when it mentioned also ***building*** an EV flight its stock soared 2x. No contract was announced.

Emerging Markets continue to lag, with the exception of the Indian market (Sensex is up 20% year to date), Singapore (+11% ytd) and Japan (+5%). The shock of the distress of Evergrande (with over $300 bn in debt – including $20 bn in international bonds), had ongoing aftershocks as other developers faltered – such as Fantasia, China Properties Group and Modern Land.

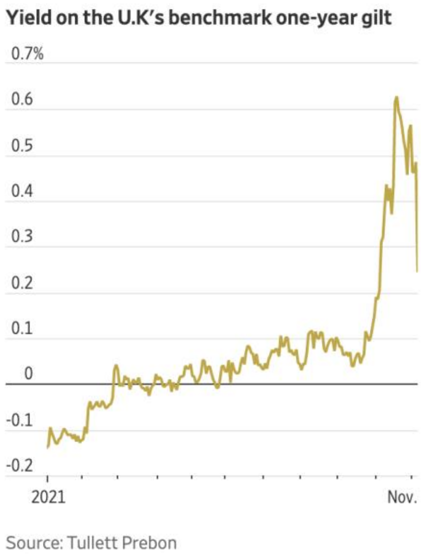
The disparity between non-US markets and US is shown in the charts below. Non-US markets are trading at lower valuations and higher dividend yields than US markets, suggesting better value at this juncture. But the US offers appeal of "safety", a defensive currency and the irrepressible engine of growth.



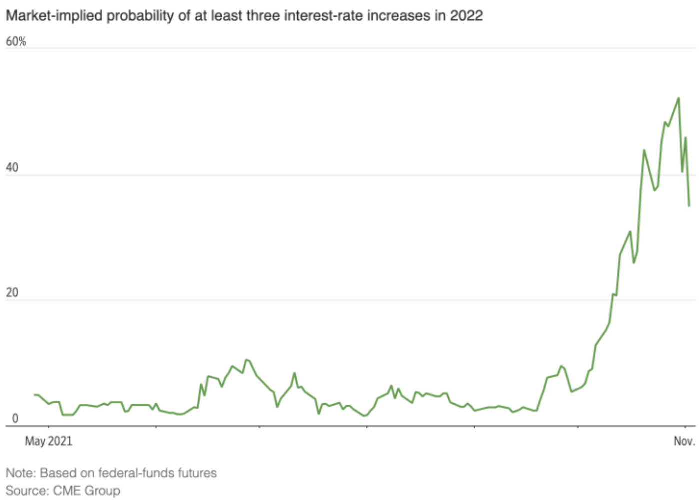


Fixed Income/Credit: an expectation of a rate hike misses the mark

Fixed income has had disappointing returns year to date, but demand for the asset class remains high despite low “real” yields – or yields after inflation – many of which are now negative. The mounting focus on inflation has led to increased expectations of rate rises, but these missed the mark this quarter, and Gilts saw their biggest daily drop in yields since the 2009 crisis, while the Pound lost 1.4% against the dollar in a single day, its biggest one day fall in more than a year.



As the chart below shows, the mood music is moving in terms of rate expectations in the US too, but if the UK experience is anything to by, there is a strong likelihood that Central Banks may lose their nerve.



Other asset classes

While oil prices remained strong, as did natural gas, and this drove the rising awareness of energy price inflation.

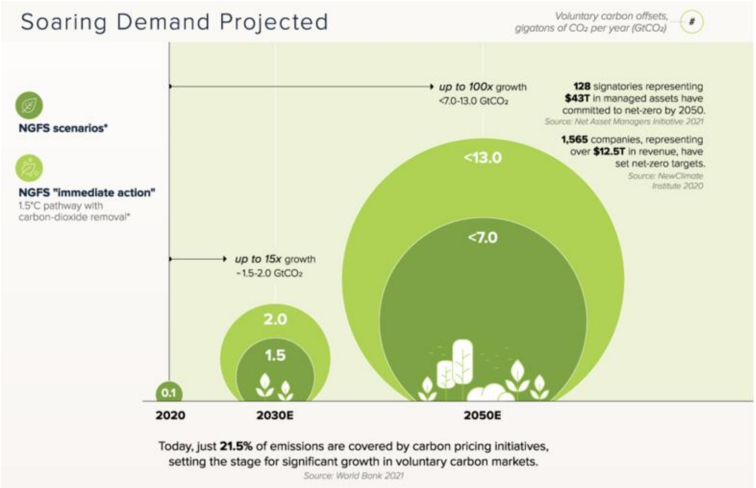
Lumber prices have come down somewhat – per the chart below – due to an easing in supply chain tightness. A reminder that what comes up *can* come down.

Spotlight: The Road from Glasgow

Meanwhile the climate was distinctly chilly in geopolitical circles as climate change policy was discussed at Glasgow and COP26. Attending nations used the opportunity to call out Russia and China for remaining holdouts on key multi-lateral pledges. One of the first such pledge was a pledge to end deforestation within the next decade, with more than $19 billion of public and private capital committed to the plan. The US joined with European nations in planning to cut methane emissions by 30% by 2030, and an announcement was made about an International Sustainability Standards Board (ISSB)– to have a global presence and receive support from regional financial institutions. These standards are expected to represent internationally consistent, high-quality, and reliable baseline standards for disclosure of sustainability-related information on enterprise value creation.

The pressure on companies to demonstrate "green credentials" was highlighted by Larry Fink of Blackrock as an arbitrage opportunity that would spur sales of polluting subsidiaries into less transparent private subsidiaries. His statement was notable in that it highlighted the disparity between developed and developing countries in their readiness to meet decarbonization standards and cited the fact that Blackrock had raised close to $700 m for a climate-focused infrastructure fund focused on developing countries. He also floated a "re-imagining" of the role of institutions such as the World Bank and the IMF, but also acknowledged the challenges in weaning energy-hungry countries off hydrocarbons. In this connection the Asia Development Bank plans to aid decommissioning of coal-powered plants in Indonesia and the Philippines and South Africa was promised $8.5 bn from the US, the UK and the EU to do the same. Meanwhile after recent blackouts China is building more coal-powered plants, although it has conceded that they will have cleaner technology.

Gestures such as this illustrate the importance of energy security, particularly in a highly digitized world, and underscore the challenges that all of the energy transition work is continuing to face. What is abundantly clear, though, is the extent of resources that will be committed to this cause on a global scale and the pressure on corporations to comply. It would seem to be unwise to take our eyes off this space. The chart below shows how meaningfully the demand for carbon credits is expected to grow in the coming decades.



* NGFS = Network for Greening the Financial System

Outlook

Last quarter we forecasted a climate of VUCA - volatility, uncertainty, complexity, and ambiguity and the conflict at the centre of COP26 illustrates why this complexity and nuance is important to understand. Inequality and the disparity of progress between developed and developing countries is at the heart of the conflict and has been seen to arrest the recovery from Covid as well as the race to address climate change. Bridging this gap will be an essential piece of the puzzle in the years ahead. In coming months we will be watching in particular:

- **Supply Chains – How bad is the crisis really, and are there any pressure valves that can be released in order to address the problem?** The coming Christmas shopping season will test supply chains and it may be that large providers who integrate their own supply chains flourish while other less integrated and smaller providers struggle. Energy prices will reach their maximum during the cold season and there may be “valves” that can be opened to relieve price pressure there too. If not, it could indeed place a catastrophic dent in consumer and company budgets.

- **Corporate Earnings and Next Steps.** The past earnings season may be viewed as a lagging indicator, based on the summer surge in travel and spending. As some of that subsides and

Covid savings are spent down, it will be interesting to see how the busy retail season fares and what impact that has on end of year earnings.

- **The Road from Glasgow.** As the fanfare in Glasgow subsides, watching what policies translate into action will be interesting. Will the deforestation pledge and the increased push to Net Zero lead to more forestry developments, more pressure on companies to comply and more incentives for sustainable and renewable energy? What will methane reduction mean in practice? How will corporations adapt – will they engage in the "arbitrage" forecast by Larry Fink – of shedding their polluting assets and thus improving their credentials? Or will the change be at the root of their business models, and will they build their own offsets, instead of paying away to get credit?

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November 26, 2021

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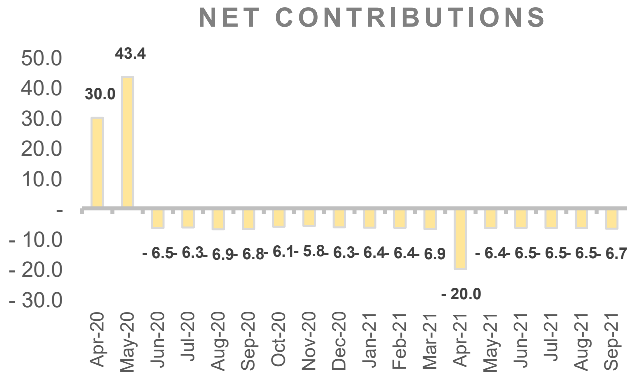
SOUTH YORKSHIRE
PENSIONS AUTHORITY

QUARTERLY REPORT
TO 30 SEPTEMBER 2021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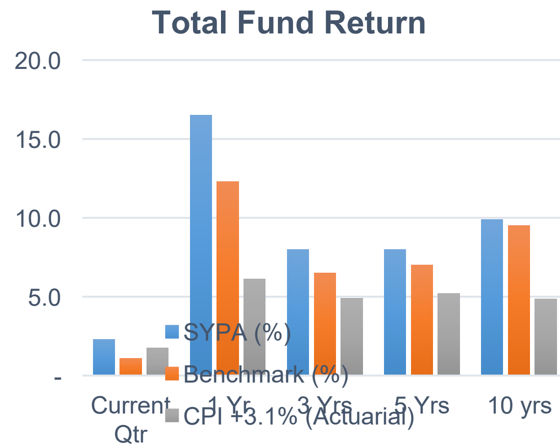
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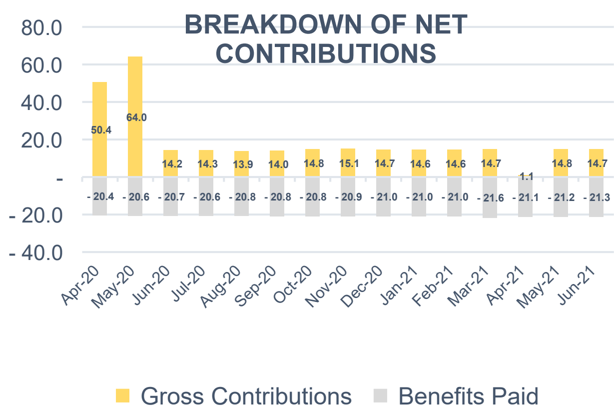
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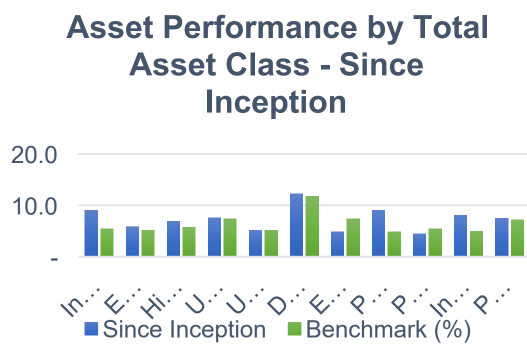
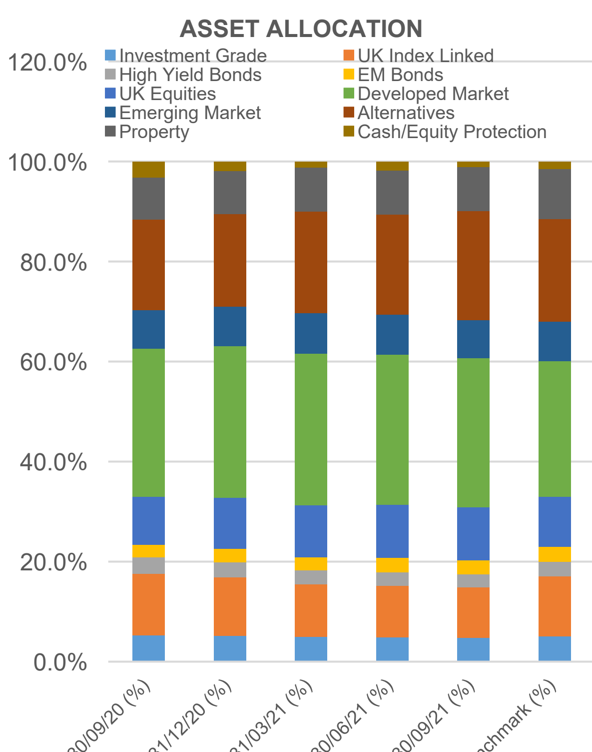
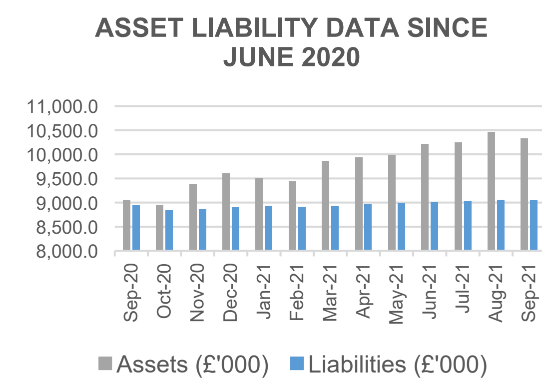
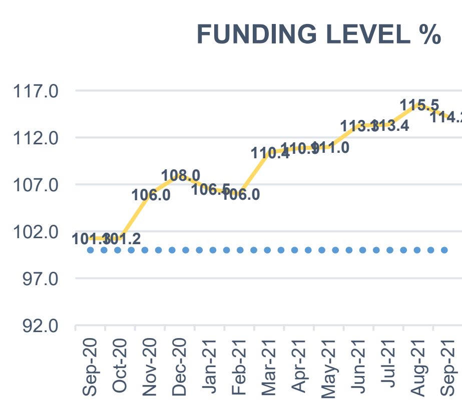

Asset Performance by Total Asset Class - Since Inception
20.0
10.0
-
Since Inception
Benchmark (%)


ASSET ALLOCATION
Investment Grade
UK Index Linked
High Yield Bonds
EM Bonds
UK Equities
Developed Market
Emerging Market
Alternatives
Property
Cash/Equity Protection
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
30/09/20 (%)
31/12/20 (%)
31/03/21 (%)
30/06/21 (%)
30/09/21 (%)
Benchmark (%)


ASSET LIABILITY DATA SINCE JUNE 2020
11,000.0
10,500.0
10,000.0
9,500.0
9,000.0
8,500.0
8,000.0
Sep-20 Oct-20 Nov-20 Dec-20 Jan-21 Feb-21 Mar-21 Apr-21 May-21 Jun-21 Jul-21 Aug-21 Sep-21
Assets (£'000)
Liabilities (£'000)


FUNDING LEVEL %
117.0
112.0
107.0
102.0
97.0
92.0
101.3 101.2 106.0 108.0 106.5 106.0 110.4 110.9 111.0 113.3 113.4 115.5 114.2
Sep-20 Oct-20 Nov-20 Dec-20 Jan-21 Feb-21 Mar-21 Apr-21 May-21 Jun-21 Jul-21 Aug-21 Sep-21

Market background

Equity markets continued to rise over the quarter supported by corporate earnings results but did fall in September as concerns grew over inflation and potential interest rate hikes. Central bankers still say that higher inflation is transitory but have noted recently that it will likely last longer than previously anticipated.

UK equities performed well as second quarter statistics showed strong growth for the UK economy due to easing restrictions. However, the Covid-19 'pingdemic' and Brexit caused staff shortages and supply chain issues that hindered UK hospitality and retail sectors. The disruption caused by the resulting fuel shortage dented sentiment in September although the positive performance earlier in the quarter more than offset losses

Global equities gained slightly with developed markets outperforming emerging markets amid a sell-off in Chinese equities. Returns from Japan were the strongest and the rest of the Asia Pacific region performing poorly in aggregate as they moved in sympathy with the Chinese equity market.

Government bond yields began the quarter moving lower but as concerns regarding inflation rose then gilt yields rose which drove asset prices lower. Credit spreads remain at all-time lows as they continue to be suppressed by supportive fiscal and monetary policy. High yield debt generally outperformed investment-grade bonds.

Commodity indexes were strong driven by sharply higher energy prices caused by increased demand in the wholesale gas market.

Real estate returns were positive with all sectors rising. Industrials were the strongest with offices the weakest. A recovery in retail warehouse performance is evident which helped lift overall retail return. Offices are continuing the downward trend amid low visibility around the impact of Covid-19 on future occupation.

Fund Valuation

as at 30 September 2021

	Jun-21		Quarterly Net	Sep-21		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	492.0	4.8	0.0	485.4	4.7	5	
UK ILGs - BCPP	877.1	8.6	0.0	897.1	8.6	10	
UK ILGs SYPA	171.2	1.7	-25.1	151.9	1.5		
High Yield Bonds	278.7	2.7	-5.0	272.3	2.6	3	
EM Bonds	302.2	3.0	-1.3	303.4	2.9	3	
TOTAL	**2121.3**	**20.8**	**-31.4**	**2110.1**	**20.3**	**21**	**16-26**
UK EQUITIES	**1079.8**	**10.6**	**0.0**	**1101.9**	**10.6**	**10**	**5 _ 15**
INTERNATIONAL EQUITIES							
Developed Market - BCPP	3018.2	29.6	0.0	3066.0	29.5	27.125	
Developed Market - SYPA	44.2	0.4	-11.0	33.6	0.3		
Emerging Market - BCPP	811.2	7.9	0.0	776.7	7.5	7.875	
Emerging Market - SYPA	10.5	0.1	-4.5	5.5	0.1		
TOTAL	**3884.1**	**38.0**	**-15.5**	**3881.8**	**37.4**	**35**	**30-40**
PRIVATE EQUITY							
BCPP	67.6		23.3	102.7			
SYPA	807.5		-14.0	869.8			
TOTAL	**875.1**	**8.6**	**9.3**	**972.5**	**9.3**	**7**	**5_9**
PRIVATE DEBT FUNDS							
BCPP	12.1		8.4	20.8			
SYPA	472.8		-9.2	496.1			
TOTAL	**484.9**	**4.8**	**-0.8**	**516.9**	**5.0**	**5.5**	**4.5-6.5**
INFRASTRUCTURE							
BCPP	46.8		64.1	61.5			
SYPA	632.3		15.2	723.2			
TOTAL	**679.1**	**6.7**	**79.3**	**784.7**	**7.5**	**10**	**8_12**
PROPERTY	**898.9**	**8.8**	**1.3**	**911.5**	**8.8**	**10**	**8_12**
CASH	**181.7**	**1.7**		**118.4**	**1.1**	**1.5**	**0-5**
TOTAL FUND	**10204.9**	**100.0**		**10397.8**	**100.0**	**100**	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	**1255.0**			**1279.1**			

Asset Allocation Summary

As equity markets continued to improve we took the opportunity to take profit. £15.5m was raised from the legacy holdings and these proceeds were used to fund the drawdowns into the alternative funds.

Also, we sold £25m of legacy index-linked gilts to maintain a neutral weighting to this category.

£89m was invested into the alternative funds with £79m of this invested to infrastructure funds.

The current Fund allocation can be seen in the chart below and is shown against the strategic target.

There are two categories that are outside their tactical ranges, private equity and infrastructure.

We have seen significant uplift in valuations from our private equity fund holdings when the most recent statements have been received this quarter which has led to us now being over the higher allocation. We are expecting some realisations to be completed over the next couple of quarters which will hopefully bring the allocation down.

As reported last quarter the change in benchmark weighting for infrastructure funds has meant that we are below the lower bound for this asset class. However as expected we have had significant drawdowns during the last quarter with the weighting rising from 6.7% to 7.5% and we anticipate further drawdowns which should rectify the underweight position during this financial year.

The changes in net investment for the categories over the last year are also shown below. It shows that we have been de-risking the Fund in line with the strategic benchmark

Asset Allocation Summary

Strategic vs Current Asset Allocation					
Asset Class	SAA Target	Range	Current Asset Allocation		
	%	%	£m	%	OW/UW
Index Linked Gilts	10	8 - 12	1049	10.1	**0.1**
Sterling Inv Grade Credit	5	3 - 7	485.4	4.7	**-0.3**
Other Fixed Income	6	4 - 8	575.7	5.5	**-0.5**
UK Equities	10	5 - 15	1101.9	10.6	**0.6**
Overseas Equities	35	30 - 40	3881.8	37.3	**2.3**
Private Equity	7	5 - 9	972.5	9.4	**2.4**
Private Debt	5.5	4.5-6.5	516.9	5.0	**-0.5**
Infrastructure	10	8 - 12	784.7	7.5	**-2.5**
Property	10	8 - 12	911.5	8.8	**-1.2**
Cash	1.5	0 - 5	118.4	1.1	**-0.4**
Total	100		10397.8	100	

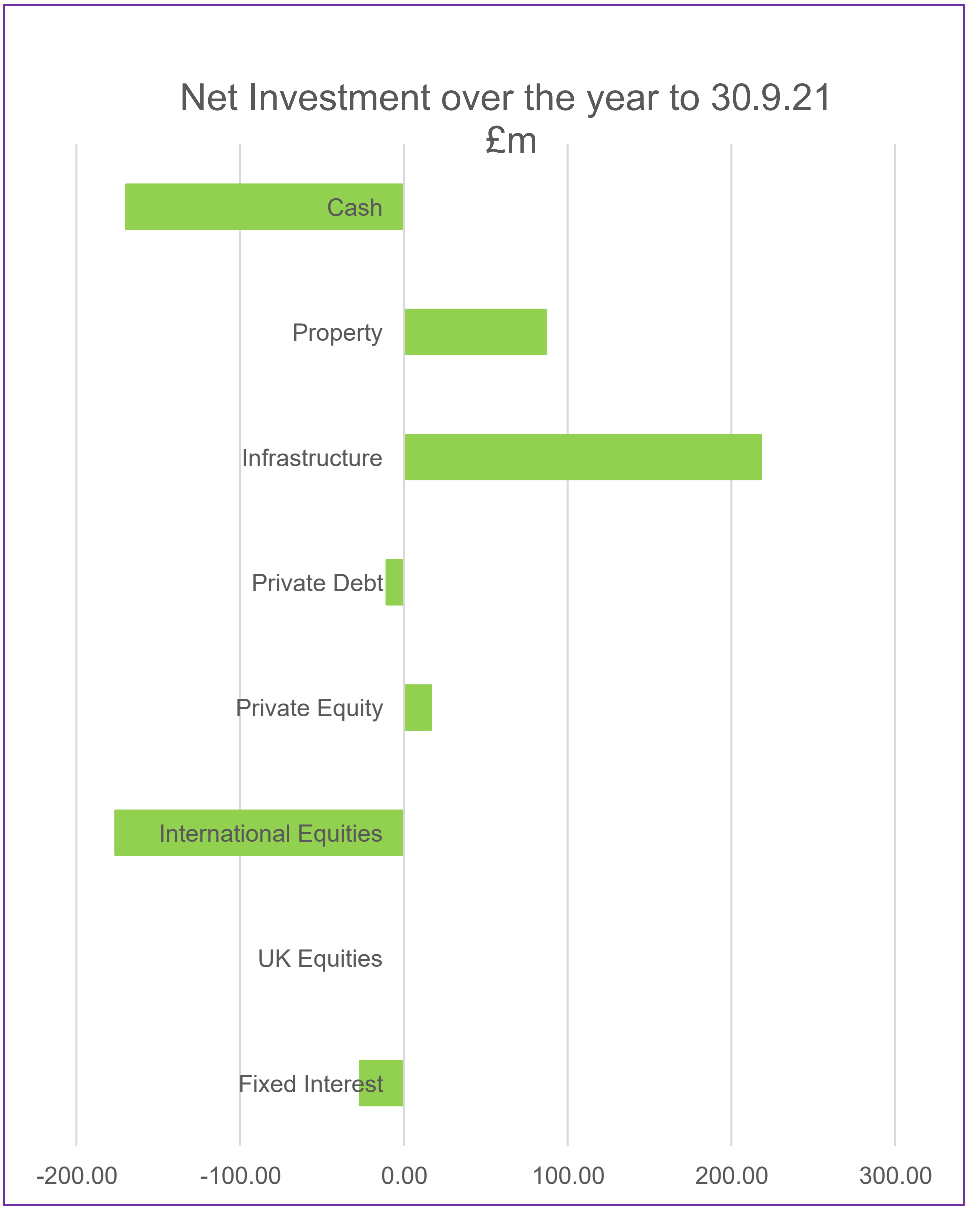
OW/UW 'RAG' ratings

Green ratings indicate that current asset allocation is within agreed tolerances

Amber ratings indicate that current asset allocation is beyond 70% of the difference between the maximum/minimum range and the strategic target allocation

Red ratings indicate that current asset allocation is out of range

Asset Allocation Summary



Performance

as at 30 September 2021

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	-0.8	-1.0	1.2	0.7
UK ILGs	2.3	2.3	7.2	7.1
High Yield Bonds	0.0	-1.0	3.1	0.7
EM Bonds	2.1	-0.6	7.2	3.3
TOTAL	1.2	0.6	5.2	3.8
UK EQUITIES	2.1	2.2	7.4	8.0
INTERNATIONAL EQUITIES				
Developed Market - BCPP	1.6	1.1	8.0	8.0
Developed Market - SYPA	0.5	1.1	6.4	8.0
Emerging Market - BCPP	-4.3	-4.4	-1.3	0.2
Emerging Market - SYPA	-4.8	-4.4	-1.9	0.5
TOTAL	0.3	-0.1	6.0	6.3
PRIVATE EQUITY	10.1	1.7	10.2	4.2
PRIVATE DEBT FUNDS	6.9	1.7	7.4	4.2
INFRASTRUCTURE	4.2	1.7	7.2	4.2
PROPERTY	2.0	3.6	5.3	6.6
CASH	0.0	0.0	0.0	0.0
TOTAL FUND	2.3	1.1	6.4	5.5

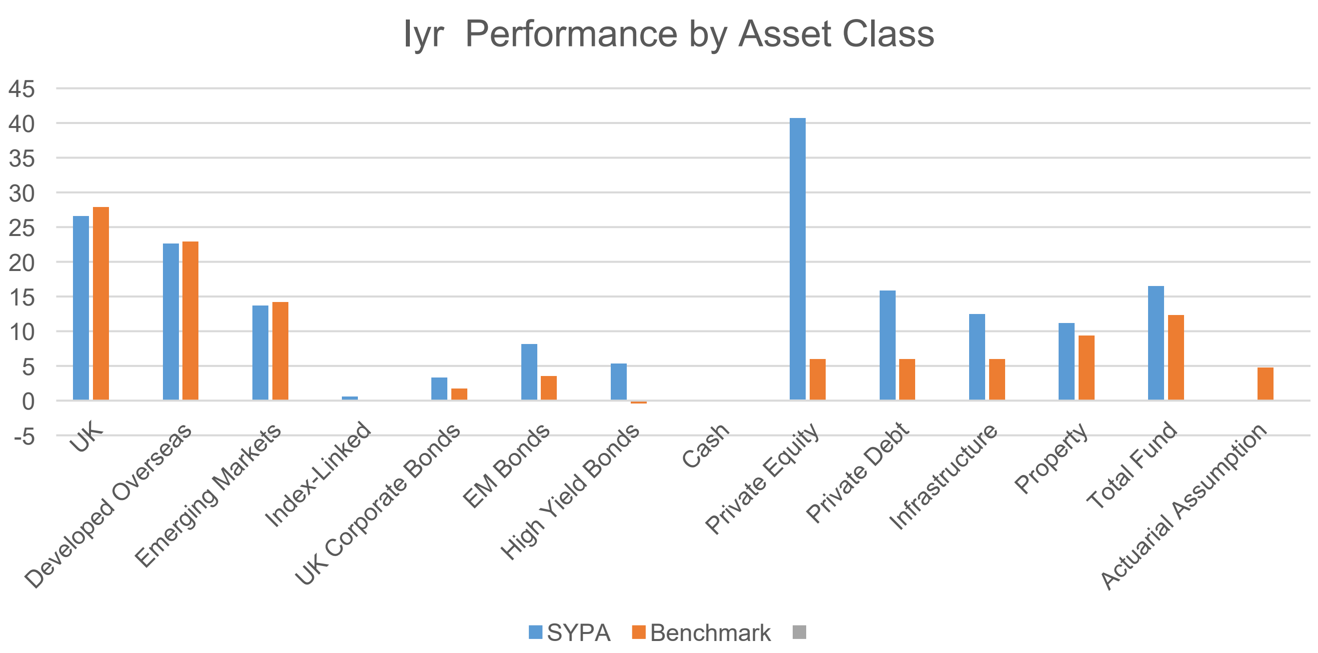
Performance Summary

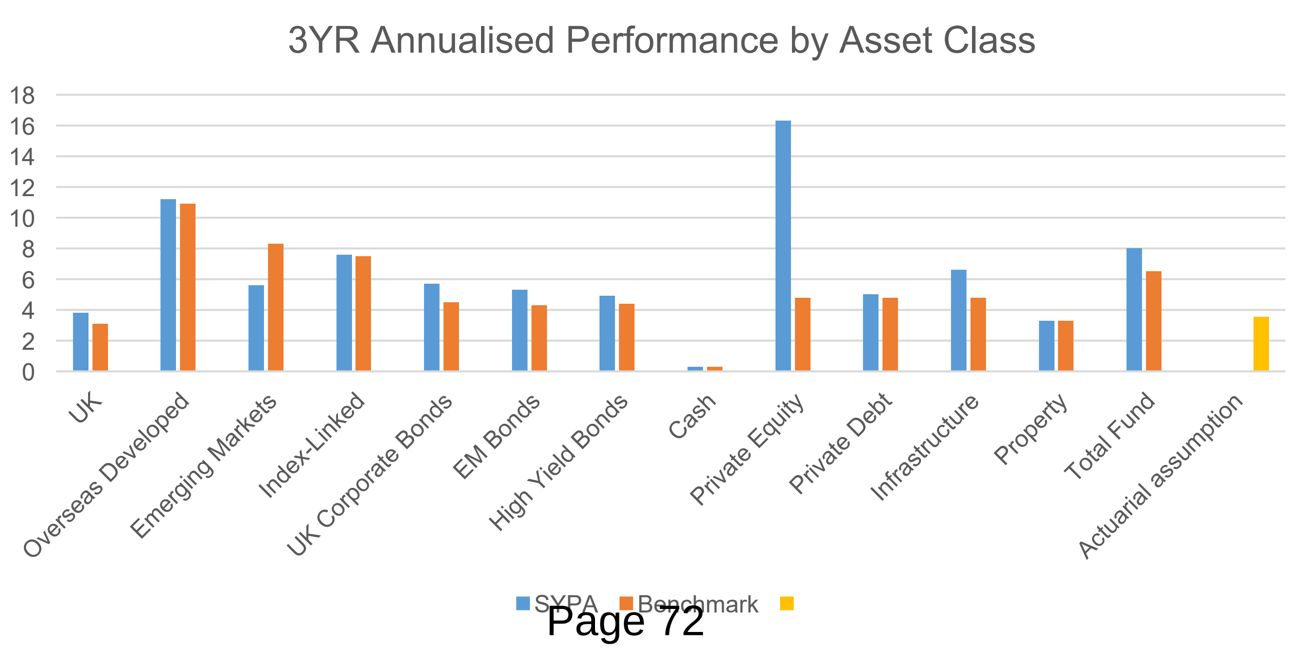
For the quarter to the end of September, the Fund returned 2.3% against the expected benchmark return of 1.1% and for the year to date the Fund has now returned 6.4% against an expected return of 5.5%.

Stock selection was the reason for the outperformance and the breakdown of the stock selection is as follows:-

DM Overseas Equities	**0.1%**
Total Bonds	**0.1%**
Private Equity funds	**0.7%**
Private Debt funds	**0.2%**
Infrastructure funds	**0.2%**
Commercial Property	**-0.1%**

Performance-Medium term





Performance – Border to Coast Funds

This quarter the UK equity fund was the only portfolio to underperform its benchmark and even this underperformance was marginal.

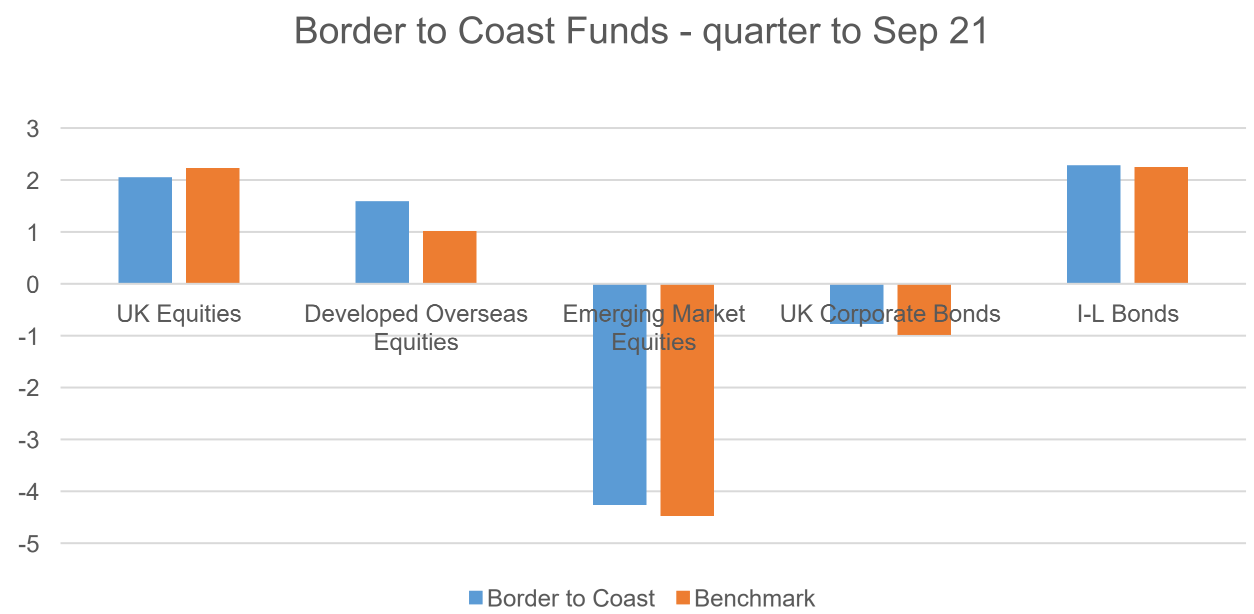
The UK portfolio was impacted by stock selection and underweight position in Real Estate and Financial Services as well as stock selection in Healthcare. This was offset to a degree by strong stock selection in Energy and being overweight Consumer Staples and an overweight position in UK Small Cap collectives which have continued to outperform as the domestic economy re-opens.

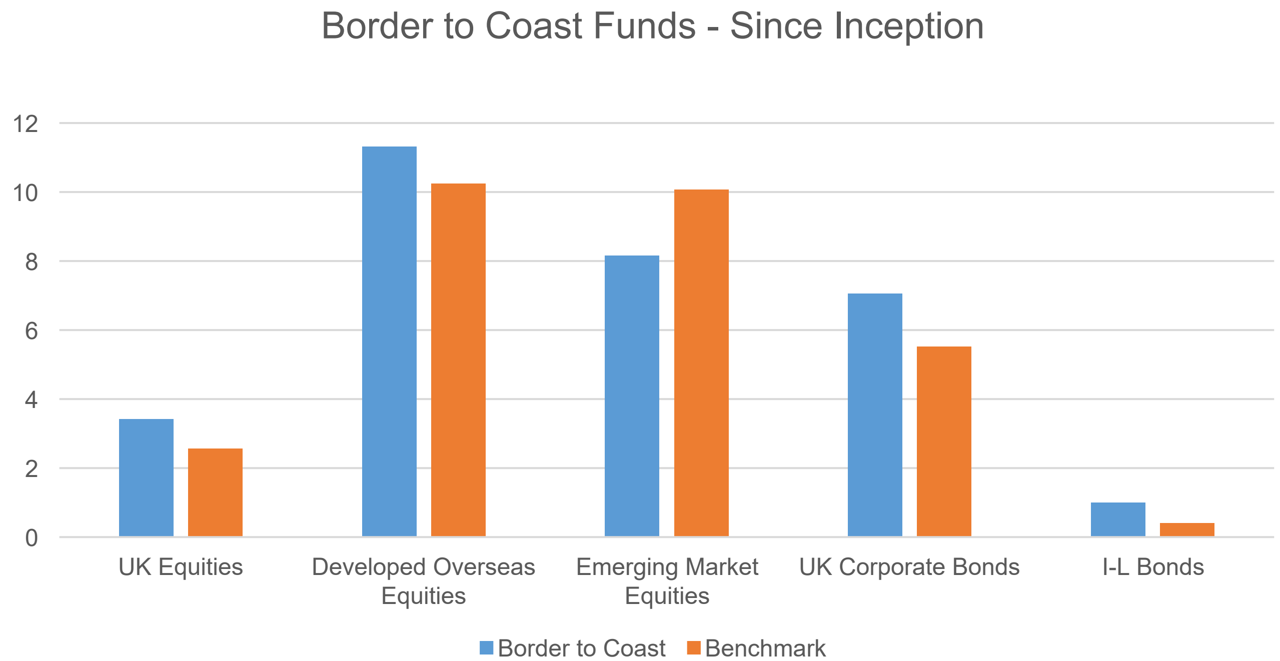
Both the bond portfolios outperformed their benchmark. In particular it is encouraging to see that the Sterling Investment Grade Credit portfolio has delivered excess returns versus the benchmark in periods of strength and weakness for credit.

The charts below show quarterly returns but also the longer term position of each of the Border to Coast funds that we hold.

It can be seen that four of the five funds have outperformed their benchmark and matched the target return.

Performance-Border to Coast Funds





Funding Level

The funding level as at 30 September 2021 is 114.9%.

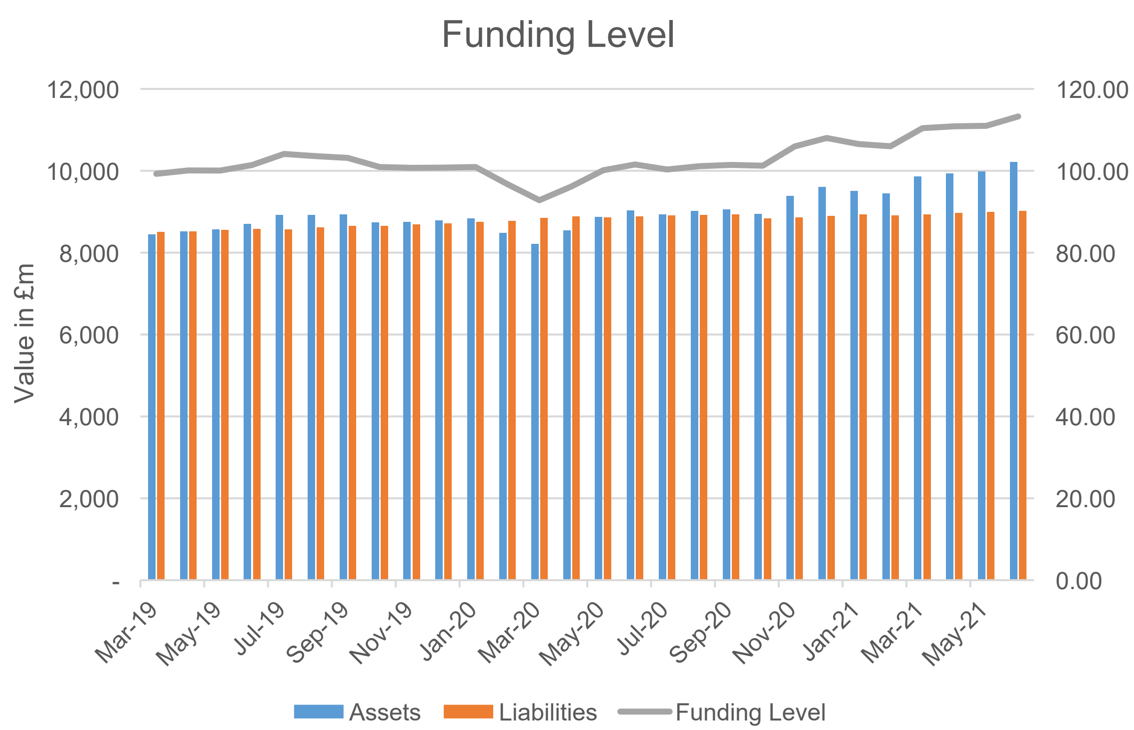
The breakdown is as follows:

Fund's Assets:

As at 30 Sep: £10,397m
As at 30 June 2021: £10.211m
An increase of £186m

Funds Liabilities:

As at 30 Sep 2021: £9,047m
As at 30 June 2021: £9,015m
An increase of £32m



Outlook

Global growth should continue to pick up with the re-opening of the world economy. However inflation projections have risen given the strength of the rebound which has stretched supply chains resulting in higher prices.. Concern that rising inflation will be sustained rather than transitory could cause volatility in equity markets if bond yields and interest rates move higher.

From an asset allocation perspective, we still prefer equities to bonds as we expect equities to be supported by robust earnings growth which should more than offset the impact of higher bond yields. Policy tightening by the Central Banks will lead to higher yields and thus negative bond performance.

UK Equities

UK equities offer attractive valuations relative to history and other developed markets. The positive vaccination situation has meant that economic activity has started to normalise. Both fiscal and monetary policy is likely to remain accommodative. However, strong sterling will weigh on the FTSE 100 given its high exposure to foreign revenues We will look to maintain the current exposure.

Overseas equities

We expect market conditions to remain volatile. We expect that a combination of continued policy support from the authorities and stronger global growth should support equities. The robust profits outlook and the delivery of strong earnings growth will offset the impact of higher bond yields. Thus we will keep our overweight equity stance at this moment particularly when return expectations in other asset classes are more limited. However, profits will be taken when necessary.

Bonds

The long-term downtrend in bond yields remains in place for now, although it may be tested again soon.

Index-linked gilts give protection against rising inflation but real yields are very low and likely to rise if nominal yields rise due to higher inflation. They are however a better bet than conventional fixed income.

Outlook

Bonds cont

Credit spreads may not fall dramatically from here, but it does seem unlikely that they will rise much either in the absence of another shock.

Given the lack of viable alternatives in developed market government bonds, or increasingly in investment grade credit, EM and high yield spreads look likely to remain well bid.

At least there is a yield and therefore a decent level of income in high yield and emerging markets, although even this is much lower than we have been used to. The same cannot be said for developed markets government bonds despite recent yield increases. Yields are so low that one needs deflation to justify holding for any but the shortest period of time. These markets will continue to be supported by central banks but long-term investors need higher potential returns to justify allocations here.

Real Estate

Within the industrial sector the occupational market is expected to be the key driver of performance, with prime assets best placed to capture rental value growth.

Polarisation within the retail sector is expected to continue. Retail warehouses have rebounded strongly with prime yields narrowing. However this has been focussed on assets that are let on affordable rents, and anchored by grocery, discount and DIY occupiers. The outlook for fashion related assets remains more challenging.

The outlook for the office sector continues to stimulate debate with more and more talk about a hybrid working future. The logistics sector is expected to have another strong year.

There are indications that the Bank of England could be looking to increase rates in 2022 but they will still remain at low rates in a historical context and this will continue to support real estate pricing, and in particular, long-let secure income. We have a relatively strong overweight to industrial and have increased our weighting to supermarkets during 2021 and have actively decreased weightings to riskier offices with imminent lease expiries/voids and peripheral retail assets and the portfolio looks well positioned going forward.

Will look to selectively increase weighting.

Outlook

Alternatives

The alternative investment market which includes investments within private equity, private debt and infrastructure, generally generates above market returns and we are looking to add further investments into this asset class although it may take some time for capital to be deployed. Within the alternative area Border to Coast are looking to launch a Climate Opportunities fund and we will look to allocate to this from our existing alternative allocation in 2022.

Cash

Cash is now at a level that we are happy with. Any further cash requirement will be financed by switching among the asset classes.

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SOUTH YORKSHIRE
PENSIONS AUTHORITY

Responsible Investment Update Quarter 2 2021/22

December 2021

Contents

Highlights and Recommendations

Highlights over the quarter to the end of September include:

- The casting of more than 1,000 votes at 89 different company meetings.
- A continued high level of engagement activity with more emphasis in the quarter on climate issues in the run up to CoP 26 but a continuing focus on social issues.
- The closing out of some of Robeco's engagement themes in line with their plan with some successes noted.
- Equity portfolios continuing to demonstrate strong ESG performance relative to benchmark.
- The availability of new metrics for the commercial property portfolio, although this has yet to result in an improvement in the portfolio's sustainability assessment.
- Some improvement in the forecast progress towards Net Zero of the equity portfolios following Border to Coast's commitment to Net Zero. However, this is still not sufficient to hit 2030.
- A continuing high level of collaborative and policy development activity, and the receipt by the Authority of an award in relation to its adoption of an impact focus for its investments.

The Authority are recommended to note the activity undertaken in the quarter

Background

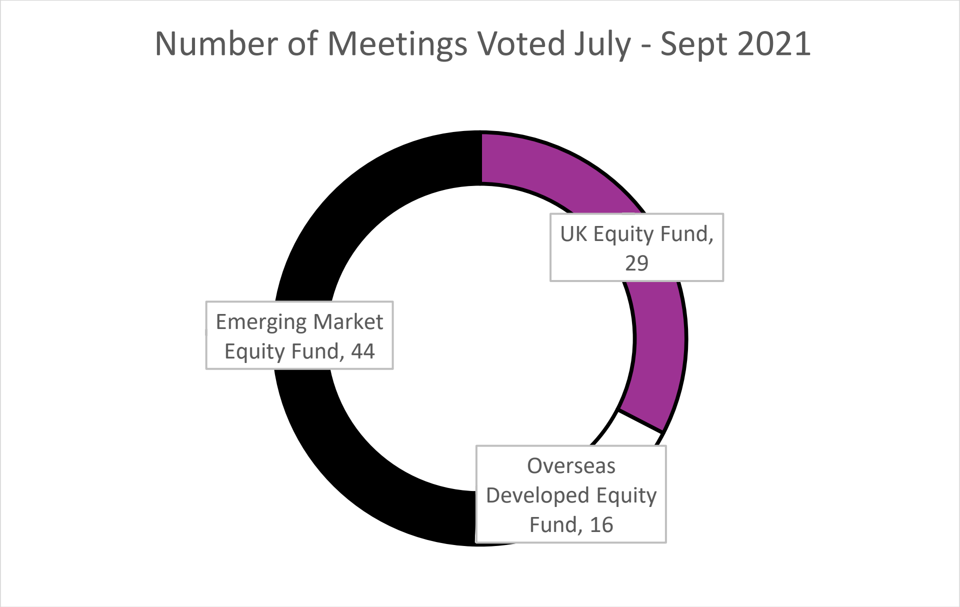
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement can be found here.

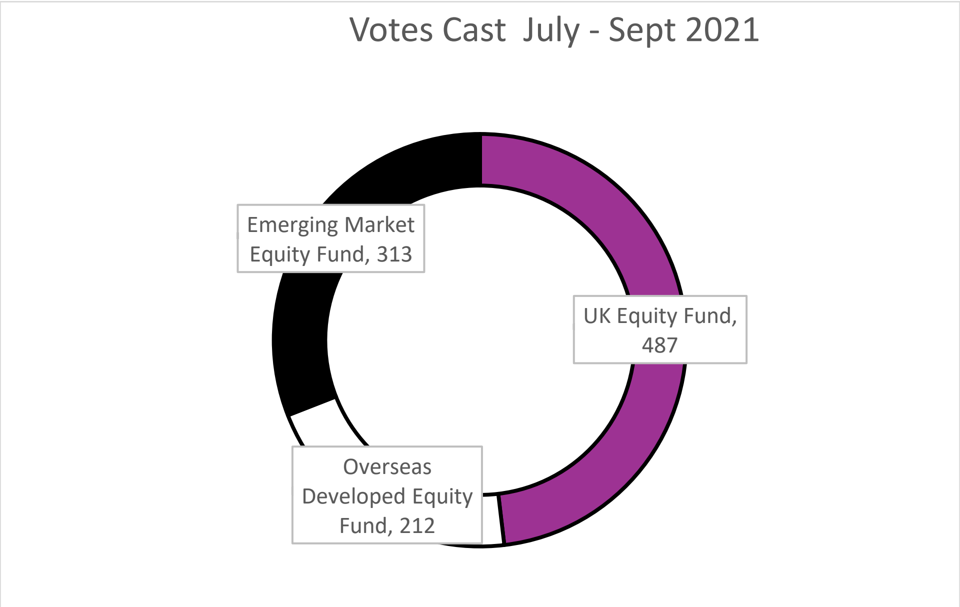
Our approach is largely delivered in collaboration with the other 11 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- Voting – Information on how the voting rights attached to shareholdings have been used over the period to influence the behaviour of companies to move in line with best practice.
- Engagement – Information on the volume and nature of work undertaken on the Authority's behalf to engage in dialogue with companies in order to influence their behaviour and also to understand their position on key issues.
- Portfolio ESG Performance – Monitoring the overall ESG performance of the various products in which the Authority is invested, and on the commercial property portfolio.
- Progress to Net Zero – Monitoring the carbon emissions of the various portfolios where data is available in order to identify further actions required to support progress to Net Zero.
- Collaboration – Working with others to influence the behaviour of companies and improve stewardship more generally.
- Policy Development – An update on broader policy developments in the Responsible Investment space some of which directly involve the Authority and others which are of more general interest.

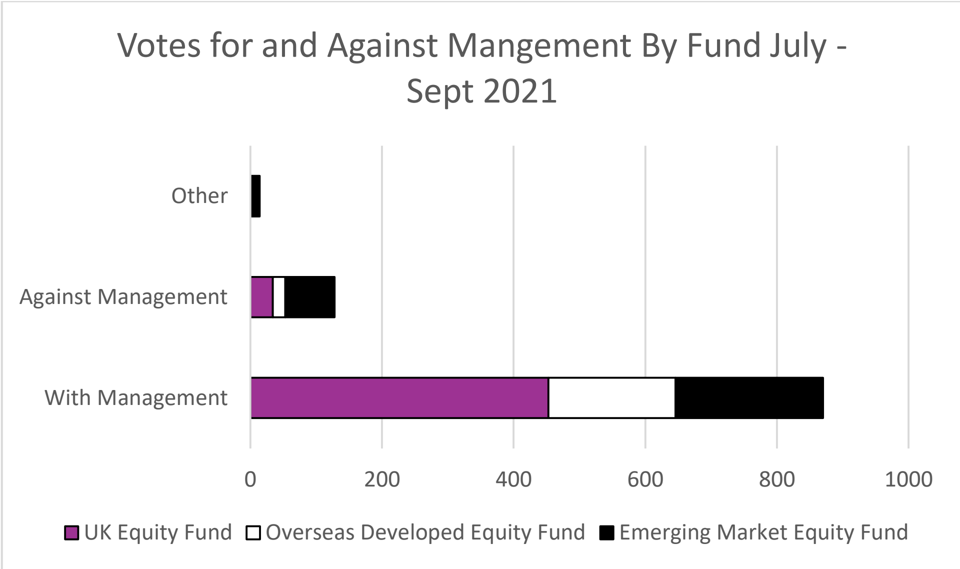
Voting Activity

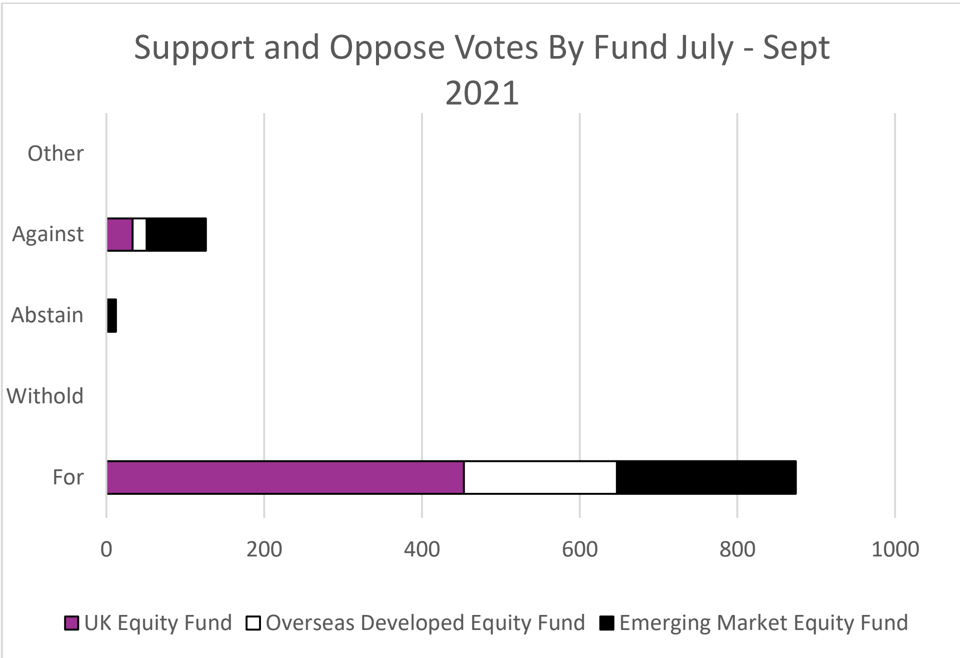
The level of activity this quarter, as would be expected was significantly lower than in the previous period with just over 1,000 votes cast at 89 meetings compared to over 6,100 at over 400 meetings last quarter. The charts below show how the Authority's holdings in listed equities were voted in the period to the end of September 2021. Detailed reports setting out each vote are available on the Border to Coast website here .





The pattern of support and oppose votes and votes for or against management, shown in the charts below shows an increase in oppose votes compared to the last quarter, although coupled with an increase in votes supporting management. Given the individual nature of votes a degree of variation in quarterly data would be expected. However, the trend over a longer timescale might be expected to indicate a tightening of the position being taken pushing companies harder to improve their practices. When compared to previous years we are voting against management more often a appear to be opposing resolutions more than last year but not as much as two years ago, although this last may be due to the nature of resoultions coming up at meetings.





Notable votes in the quarter are illustrated in the graphic below.

SSE is an energy company held in the UK fund. The Company presented its Net Zero Business plan to the AGM as part of the "Say on Climate" initiative. The Plan sets out science based targets for a 1.5C scenarion on scope 1,2 and 3 emissions and is aligned with best practice. The Plan received 99% suppot and there will be an annual vote on the Net Zero Transition Report which puts the company at the forefront of disclosure on this issue.

Logitech International is a Swiss IT products company held in the Overseas Fund. Following significant negative shareholder reaction to last year's remuneration report this year significant changes particularly to long term incentives were made. However, some of the targets were seen as unchallenging and payouts could be made as a result of underperformance. We voted against the plan and while the vote was carried there was a material vote against showing continuing shareholder concern

Alibaba Holdings is a Chinese technology holding company held in the Emerging Markets Fund. We opposed the election of a number of directors to the Board and its Committees on the grounds of insufficient independence, in particular in relation to the membership of the Remuneration Committee. In one vote the level of shareholder opposition doubled compared to the previous vote on the same issue. We will continue to monitor this position at the company which is common to many Chinese companies.

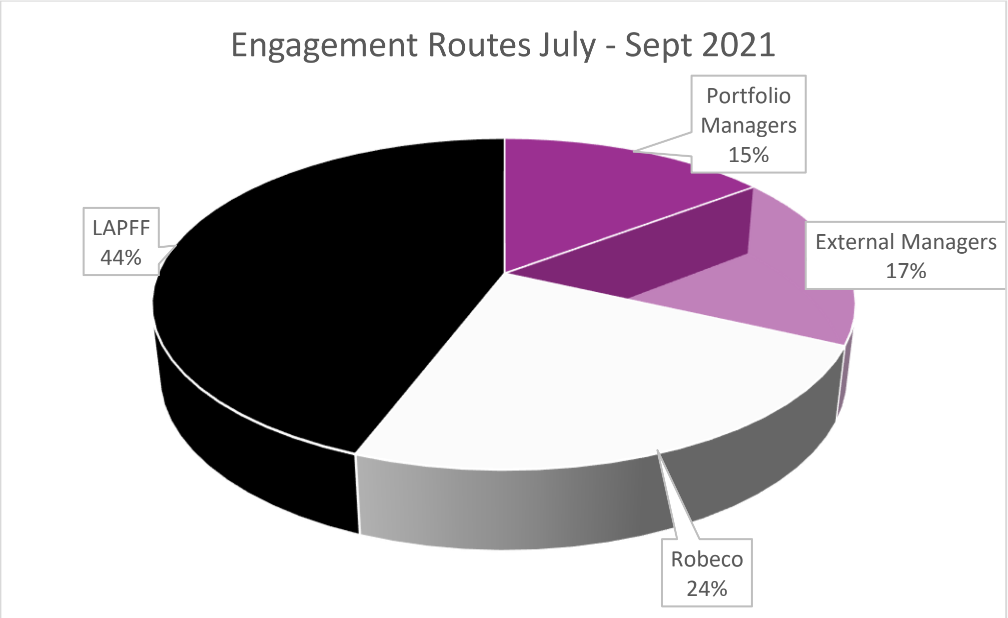
As illustrated in the regular examples of notable votes provided in these reports most votes at company AGM's concern the appointment and remuneration of directors and executives and for that reason there were two particular themes in voting activity this quarter linked to engagement activity.

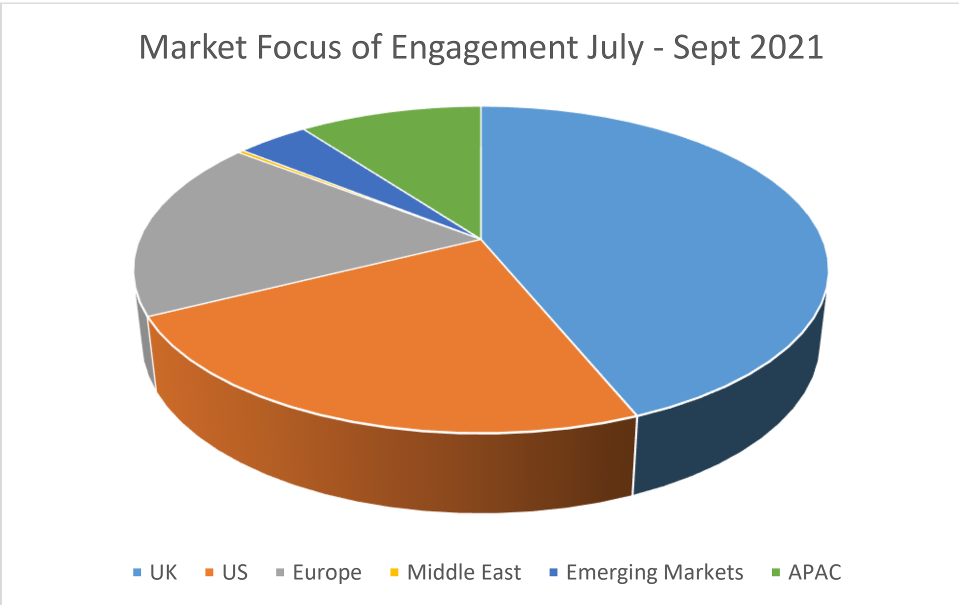
- **Shaping Accountable Investment Committees** - Historically, shareholders have predominantly focused on aligning pay with performance, however, the 2021 proxy season reflected a change in dynamic, with investors increasingly calling out the relationship between executive pay and the treatment of the broader workforce.
  Many companies have large portions of their shares designed to keep control in the hands of management and founders, which can incentivise resistance to investor opposition on pay. Changing these structures is difficult in the near term, however, in most developed markets, boards assign pay-setting responsibility to a Remuneration Committee. While direct dialogue with committees is a preferable first step in addressing misalignment in pay expectations, shareholders do have some degree of influence on the composition of the committee via the use of voting rights to oppose re-election of its members. Border to Coast uses this leverage when proposals are materially out of step with best practice.
  As remuneration continues to be a contested item on the yearly AGM agenda, it is expected that shareholders will increasingly look at the roles of committees directly. This is in line with a broader shareholder movement to use director elections to voice concerns on a broad range of issues.

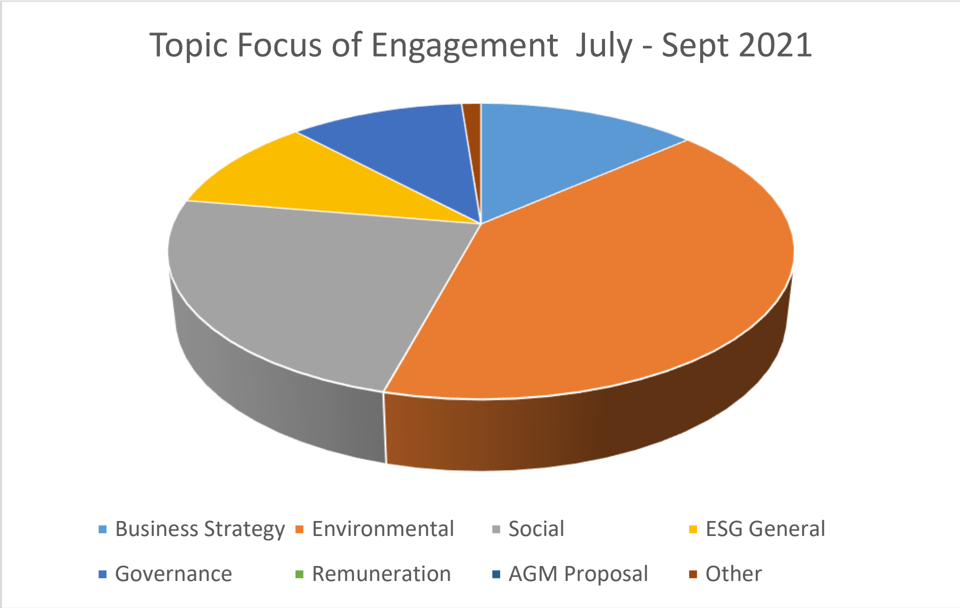
- **Diversity and Inclusion** - Diversity and inclusivity have increasingly become hot topics in recent years, either as agenda items at AGMs, or in investors' engagement efforts with companies. Diversity has more aspects than only gender, race, or ethnicity. Indeed, in December 2020, Nasdaq, the stock exchange, filed a request with the US Securities and Exchange Commission (SEC) to require its 3,300 listed companies to have at least one female board member and one board member who identifies as either an underrepresented minority or LGBTQ, on a comply or explain basis. These elements are difficult to capture and to set specific targets on.
  Nevertheless, this year saw shareholders asking more companies to reveal diversity data about their workforces. Extra disclosure and measurable employee diversity data will allow investors to assess and have better oversight of diversity and inclusion efforts. This is why through Border to Coast we support the work of the Workforce Disclosure Initiative.

Engagement Activity

Engagement is the process by which the Authority working together with other like-minded investors seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority such as the investment team at Border to Coast and the external managers in the Investment Grade Credit fund together with Robeco who act on behalf of Border to Coast and the Local Authority Pension Fund Forum which acts on behalf of all its member funds. The graphs below illustrate the scale (in terms of the total number of pieces of engagement activity), the route for and the focus of engagement activity undertaken in the quarter.







Activity this quarter was at a similar level to the previous quarter and there has been a material increase in activity compared to the first half of last financial year. There was a greater focus on UK companies this quarter and a significant increase in the focus on environmental issues in the lead up to CoP 26 in Glasgow, although there also continued to be a significant focus on social issues.

More details of the engagement activity undertaken by Border to Coast and Robeco in the quarter is available here. Significant aspects of this work in the quarter include:

- **Food Security** – Robeco's 3 year programme of work on this issue concluded in September. This engagement focussed on sustainability reporting and transparency, product portfolios, the geographic distribution of operations, innovation management and public-private partnerships. Nearly 2/3 of the dialogues undertaken were successfully closed and most progress was achieved in formalising sustainability governance including the measurement of contribution to the SDG's and the exploring of market opportunities in food insecure regions. Given that farm productivity is one of the biggest contributors to farm insecurity companies focussing on agrochemicals and irrigation systems managed to demonstrate most progress against the engagement objectives. On the other hand less progress was made with food processors and commodity traders who have the potential be active participants in developing economies agricultural sector and dialogues with two companies in this sector were closed unsuccessfully. Progress with agricultural machinery companies was more mixed, although with more successful than unsuccessful dialogues. The programme of work has achieved progress against its objectives, although only a quarter of companies involved managed to incorporate food security and SDG linked targets into their business strategy and adapt their business and marketing models to the needs of food insecure regions. This theme is intrinsically linked to the risks arising from the loss of global bio-diversity and future work will be linked to the developing engagement theme around bio-diversity and habitat loss.

- **Cybersecurity –** In 2020 the costs of cybercrime were estimated at $6 trillion globally. Robeco began an engagement project on the issue in 2018 targeting 11 companies in the payments, telecoms and household products sectors in relation to best practice in cyber-risk management. The targets were chosen because of the amount of sensitive customer data they handle and/or because they have experienced significant data breaches. Two companies were dropped because they were no longer held. The engagement with the remaining 9 companies concluded successfully in 7 cases. The focus of the engagement was around, governance and oversight, policy and procedure, risk management and controls, transparency and disclosure and privacy by design. Most companies acknowledged cyber-crime as a risk but they varied in the priority attached to it. Companies were understandably reluctant to provide transparency on some areas and affected the success of the policy and procedure and transparency themes with success in only slightly more than half of companies in both cases. Dialogues was easier in relation to privacy issues and dialogue on these was closed successfully in 2/3 of cases. Cybercrime remains a significant and growing risk and 80% of countries worldwide now have legislation addressing this risk. The companies engaged with had responded to and in several cases gone well beyond these legal requirements. The specific issues addressed in this engagement will now be followed up in future engagements addressing the digitalization of healthcare and the social impact of AI.
- **Human Rights Due Diligence –** This is a new engagement theme launched in the quarter. As an investor we seek to avoid providing capital to companies exposed to human rights violations. Poor and inadequate management of human rights risks could have an impact on people and expose businesses as well as investors to legal, operational, and reputational risks, which can have a direct negative impact on companies' license to operate. Robeco have carried out an in-depth research project focussed on companies active in conflict affected or high-risk areas, aiming to minimise the adverse impact of their business activities on people. Companies will be selected for engagement through analysis of their human rights policies, grievance mechanisms and remediation measures alongside a context analysis of the risks in the regions in which they operate. Companies will be engaged with to ensure alignment with best practice as laid out in the UN Guiding Principles on Business and Human Rights. The engagement will focus on addressing gaps such as lack of reporting, undisclosed performance measures and lack of access to appropriate remediation.

More details of the activity undertaken by LAPFF in the quarter is available here. The Forum has continued its engagement activity with mining companies having opened specific discussions with Anglo American over both the company's climate transition and the way in which it engages with the communities directly affected by its operations. As part of the more general move to engaging with financial institutions on climate issues the Forum has been in discussion with Mitsubishi Financial as part of a collaborative approach to the Company. The company has now made a commitment to Net Zero and is developing its plan in particular addressing the financing of coal extraction and broadening the assessment of physical risks. The Forum has also continued its dialogue with companies operating in the Palestinian Territories who have been flagged by the UN as potentially not operating in line with the UN Guiding Principles on Business and Human Rights.

Portfolio ESG Performance

Equity Portfolios

Each of the equity portfolios is monitored by Border to Coast in terms of its overall ESG performance with data reported quarterly. This section of the report provides a summary of performance and of changes over time. The full reports are available for members in the on-line reading room, but this summary provides a high-level indication of the position.

Overseas Developed

- Weighted ESG Score above benchmark (6.6 v 6.5)
- 35.7% of portfolio ESG leaders below benchmark
- 3.2% of portfolio ESG laggards below banchmark.
- 7.4% of portfolio not covered
- Worst scoring companies 2.2% of portfolio
- Emissions below benchmark on all metrics but increased in quarter
- Greater weight of fossil fuel holdings than in benchmark
- All 5 top emitters rated on the Transition Pathway with one scoring 4*

United Kingdom

- Weighted ESG Score above benchmark (7.7 v7.5)
- 66.2% of portfolio ESG leaders above benchmark
- 0% of protfolio ESG laggards above benchmark
- 8.7% of portfolio not covered
- Worst scoring companies 4.1% of portfolio
- Emissions better than benchmark on all metrics but two metrics increased in the quarter
- Lower weight of fossil fuel holdings than in benchmark.
- Top 5 emittersall rated 4 or 4* (highest ratings) on the Transition Pathway

Emerging Markets

- Weighted ESG score above benchmark (5.3 v 5.0).
- 20.1% of portfolio ESG leaders
- 15.1%of portfolio ESG laggards
- 5.9% of portfolio not covered
- Worst scoring companies 5% of portfolio.
- Emissions significantly below benchmark on all metrics but increased in quarter
- Greater weight of fossil fuel holdings than in benchmark.
- 3 of the top 5 emitters engaged with the Transition Pathway with one scoring 4.

In general, this shows marginal improvements from what was already a relatively high base, for example the proportion of the Emerging Market fund invested in ESG leaders has increased in the quarter from 17.3% to 20.1%. In general, this is the expected pattern as significant quarterly moves, other than where set alongside a major portfolio restructuring would not be expected, although positive progress would be expected as a result of the engagement activity undertaken bearing fruit over time.

The most significant movement in the quarter is in the proportion of the UK fund held in the worst rated ESG companies where there has been a significant increase due to the recategorization of BP. Officers are following this up with Border to Coast.

The carbon metrics are addressed later in this report.

Commercial Property Portfolio

The work being done by Aberdeen Standard to improve the ESG performance of the Commercial property portfolio is now leading to the availability of additional data for this portfolio, although full emissions data will not be available until the end of the financial year.

This quarter has seen the latest annual assessment of the portfolio against the Global Real Estate Sustainability Benchmark (GRESB) become available. The results and the areas of action to achieve the target of achieving a 3-star result are summarised below:

2

- 2020 Result
- 2 Star 62% down on the previous year and below the peer group and overalll averages.
- 38 of 59 in comparison with similar UK Funds
- Score 100% on management and less than 50% on performance
- Score very highly on Social and Governance dimensions but less well on environmental.
- Key gap around data particularly for single tenanted buildings

2

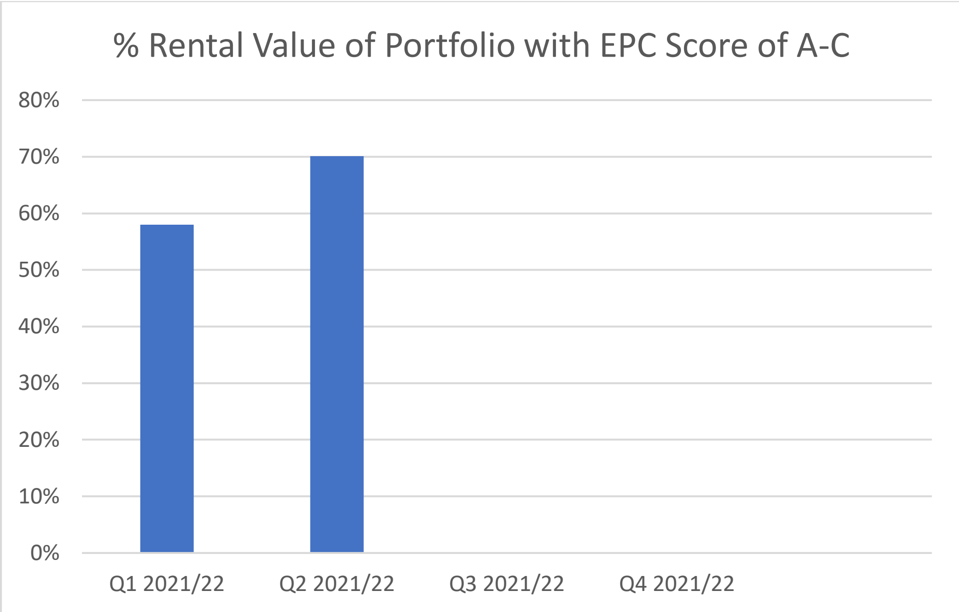
- 2021 Result
- 2 Star 66% slightly up on previous year and below peer group (68%) and overall averages (73%)
- 54th of 79 in comparison with similar UK funds
- Score 100% on management and just more than 50% on performance.
- Environmental scores continue to detract from overall performance.
- Data and certifications remain key gaps.

3

- Target to achieve 3 Star performance
- Actions required include
- Establishment of emissions data for individual properties
- Gathering of data from single let properties
- Specific property based actions to address risks and opportunities (e.g. Solar PV installations).

Broadly there has been no change in the position since last year. However, the appointment of the new managing agent from the beginning of this financial year and the increased emphasis being put on this area by Aberdeen Standard does give some confidence that progress towards the target of a 3 Star score will be made in the next reporting period.

Aberdeen Standard are also beginning to report other metrics which will over time show a direction of travel towards making the portfolio more sustainable. The first of these is a measure of the proportion of the portfolio's rental value with EPC scores of levels A to C. Progress on this in the current year is shown below.

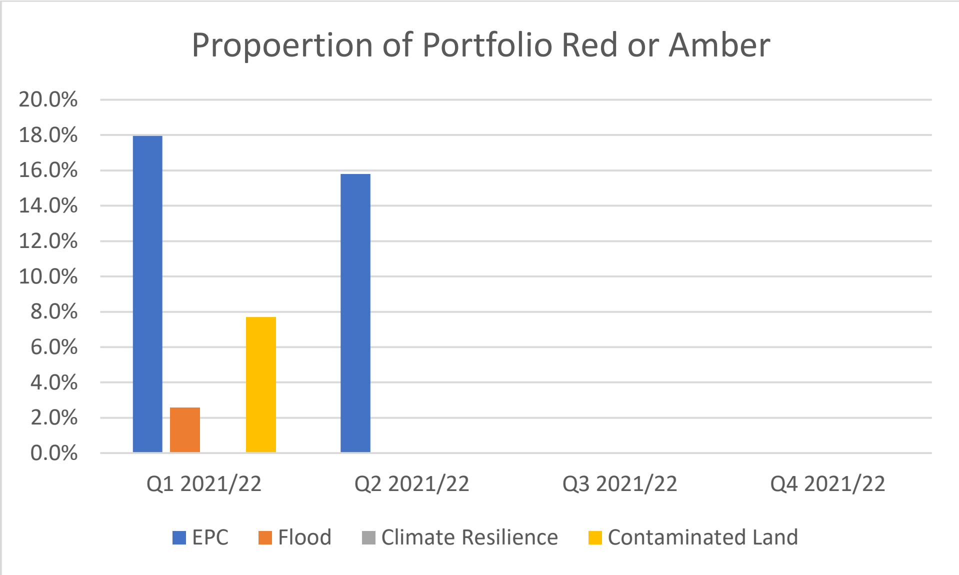


An element of the progression shown on this metric does result from the disposal of some lower scoring properties as part of the restructuring of the portfolio away from smaller properties and high street retail. However, they key corollary of this metric is the proportion of properties in the lowest scoring F and G categories where the portfolio shows significantly less than the market average which is reported at around 8%.

Each property within the portfolio is rated against 4 specific metrics

- Whether the EPC score meets the relevant criteria
- Flood Risk
- Climate Resilience
- Exposure of the site to historic contamination risks

The graph below illustrates the exposure of the portfolio to these specific risks.



Progress has also been made at individual properties with the installation of solar PV approved at two industrial units as part of the reletting process, with each case providing a return of 5% - 6% on the up-front investment required, and further schemes being examined at one supermarket property.

Another measure of the overall sustainability of the portfolio comes through sustainability certification. The most common type of certification is BREEAM and the Authority aspires through its agreed policy for its portfolio to achieve an overall level of Very Good or if built without certification which is often the case to be of an equivalent standard. Currently two properties representing 9% of the value of the portfolio are certified as BREEAM Very Good. This is likely to increase over time as further certified properties are added to the portfolio. There will remain a judgement for the Authority to make about whether it wishes to achieve “in use” certification for other buildings in the portfolio, but this is not currently a priority.

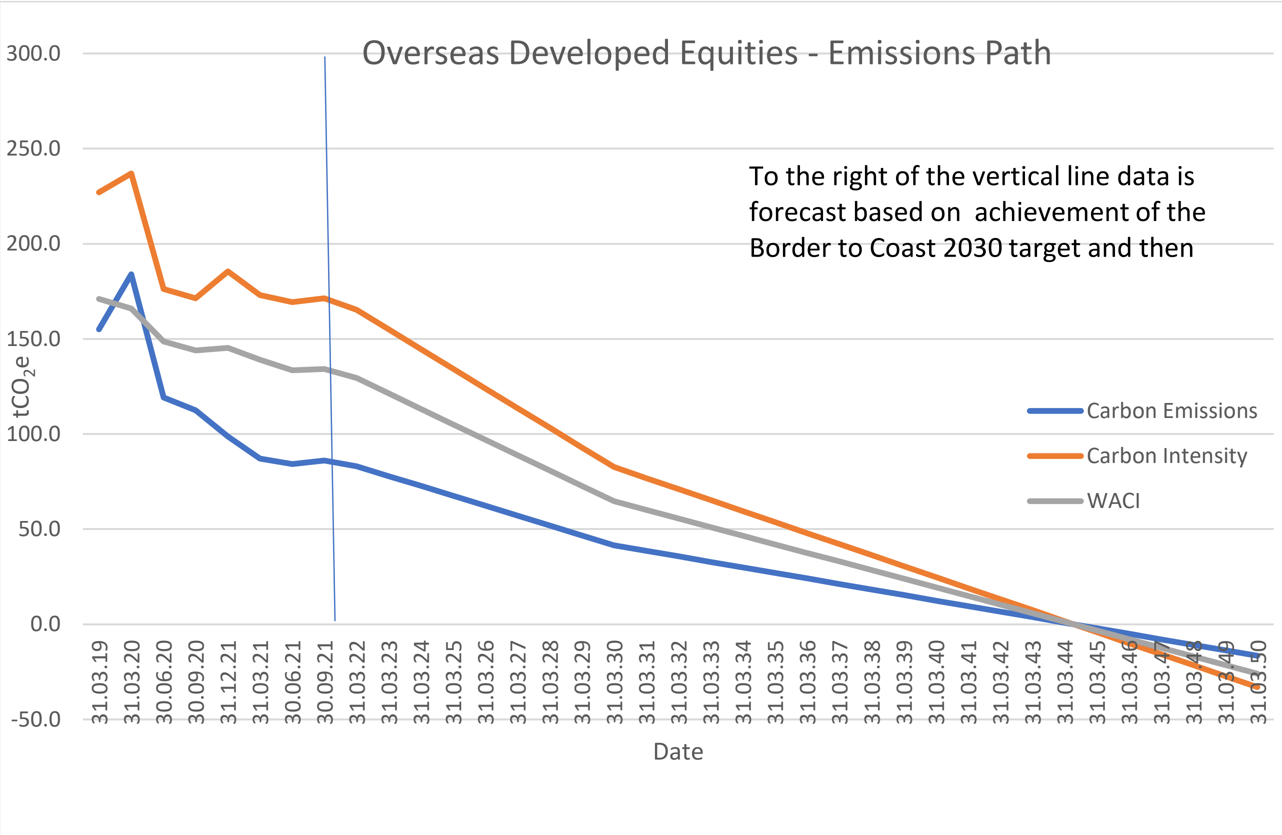
Broadly progress is being made in this area in relation to the commercial property portfolio and these issues are taking a higher priority in terms of both ongoing asset management and the review of potential new investments. The increased focus on environmental issues by tenants in terms of their own businesses is also creating a greater degree of alignment of interests making options like introducing solar PV while a tenant is in occupation more viable than has previously been the case, although each case does need to be considered on its investment merits.

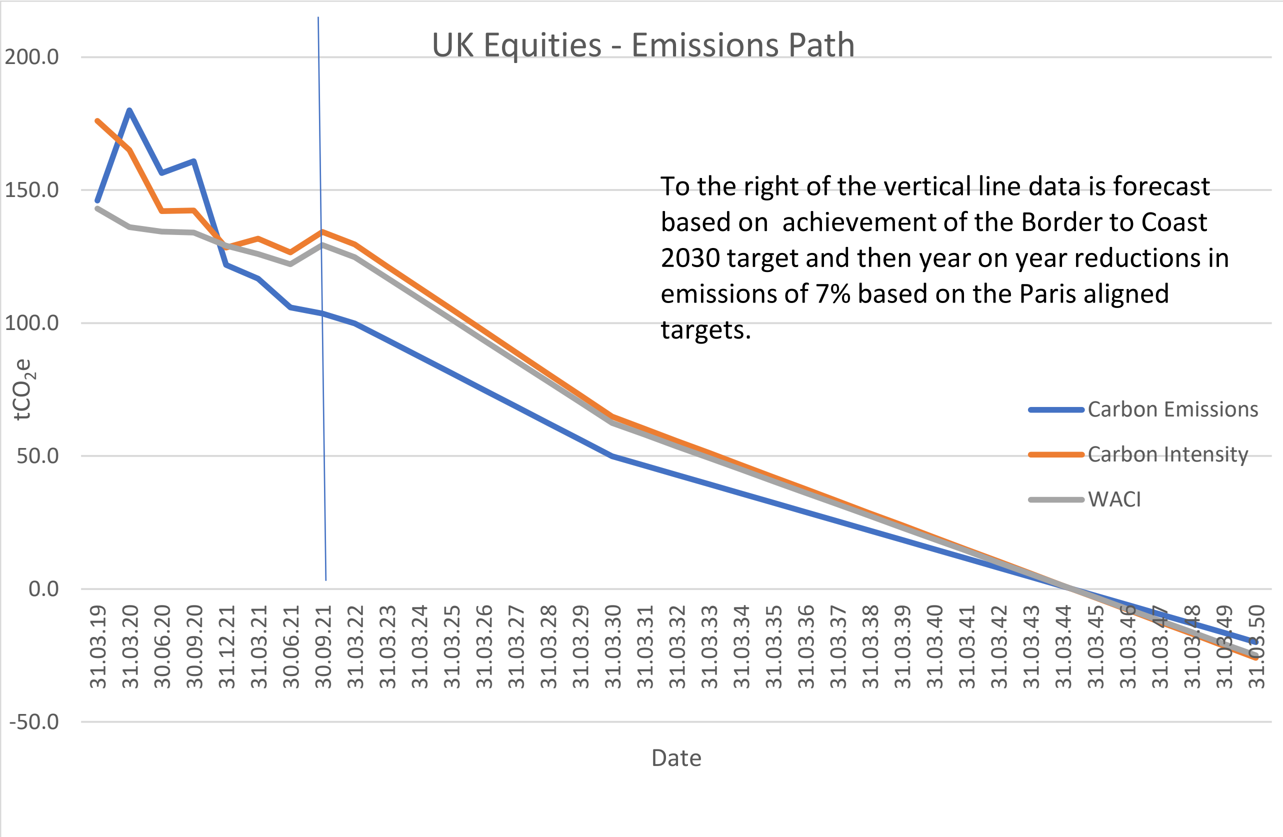
Progress to Net Zero

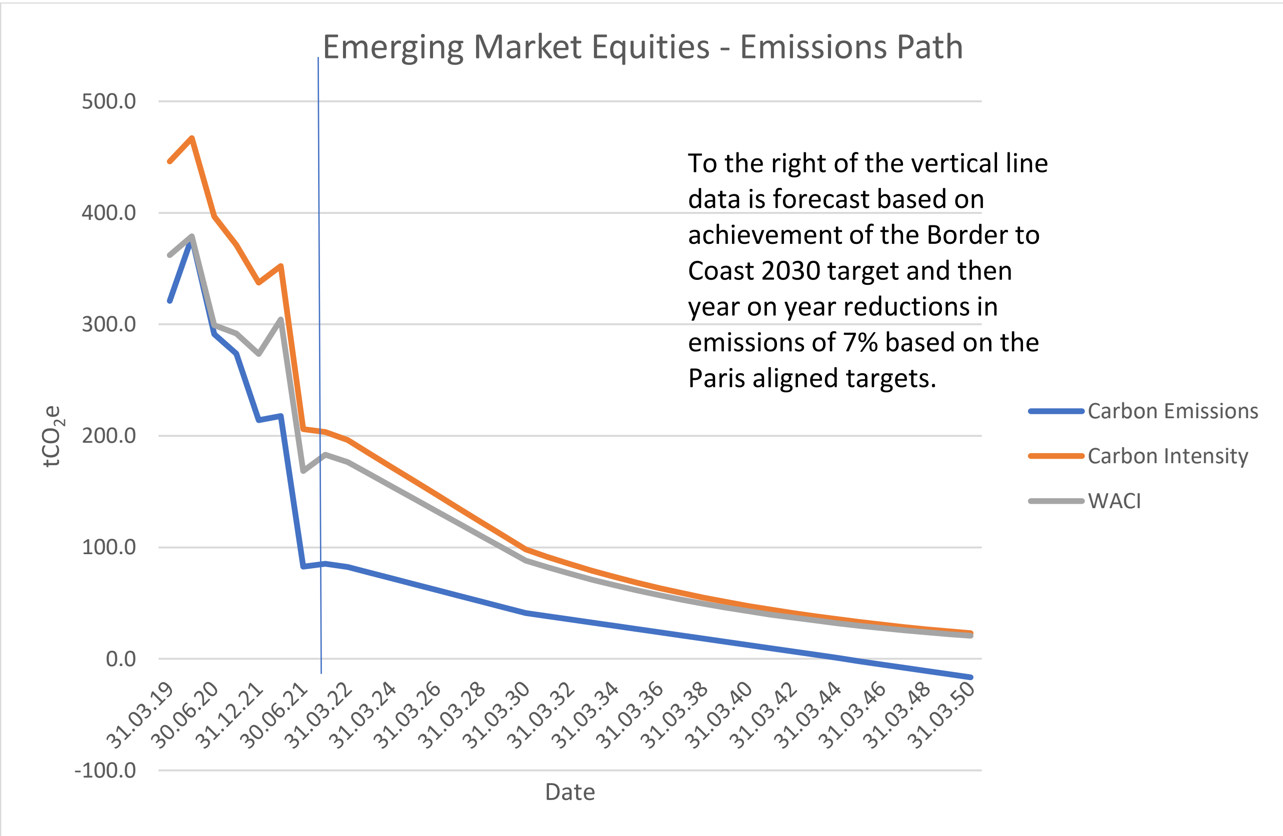
This section of the report considers the progress of the three equity portfolios towards Net Zero using the emissions data provided on a quarterly basis by Border to Coast and projects progress forward. This quarter the projection has been adjust to incorporate Border to Coast's interim (2030) emissions reduction target set out in their climate policy followed by a 7%pa year on year reduction required for Paris alignment. This is not scientific and as can be seen from the earlier parts of the graphs progress is unlikely to be linear, however, it does give a sense of the scale of the challenge we face in achieving Net Zero across this significant element of the portfolio.

While the broad trajectory remains positive there has been a noticeable increase in some of the metrics this quarter. This may be the result of the increase in economic activity post-pandemic feeding through to the data, but it remains too early to establish whether this is a trend. What is more noticeable is that incorporating the impact of Border to Coast's Net Zero commitment does significantly move all three portfolios, particularly the Overseas and Developed Markets portfolios towards Net Zero. As might be expected the Emerging Markets portfolio is somewhat behind the other two. It must be emphasised that these are projections and not reality. However, they do provide an indication of progress.

As previously reported work is being one on understanding the rest of the portfolio and the scale of possible offsets within these other areas and these data will be incorporated when possible.




UK Equities - Emissions Path
To the right of the vertical line data is forecast based on achievement of the Border to Coast 2030 target and then year on year reductions in emissions of 7% based on the Paris aligned targets.
200.0
150.0
100.0
50.0
0.0
-50.0
tCO_2e
Date
Carbon Emissions
Carbon Intensity
WACI


Emerging Market Equities - Emissions Path
To the right of the vertical line data is forecast based on achievement of the Border to Coast 2030 target and then year on year reductions in emissions of 7% based on the Paris aligned targets.
500.0
400.0
300.0
200.0
100.0
0.0
-100.0
tCO_2e
Date
Carbon Emissions
Carbon Intensity
WACI

Collaborative Activity

This section focuses on the activity undertaken in the quarter through the various collaborations in which the Authority is either directly involved or indirectly involved through Border to Coast.

LAPFF recently held both its regular business meeting and its Annual General Meeting. The papers for both meetings and a briefing note are available in the members' on-line reading room. The AGM dealt with elections to the executive which saw little change in membership with Cllr Doug McMurdo from Bedfordshire Pension Fund continuing as Chair and Cllr Wilf Flynn from Tyne and Wear Pension Fund continuing as a member of the Executive being the Border to Coast colleagues amongst those elected. The AGM also considered the accounts which showed a healthy overall position and increasing membership with only 14 funds out of 98 across the UK currently not members. The business meeting considered a number of papers looking at various processes for either offsetting carbon use or capturing carbon, including nuclear power and "direct air capture" together with the various incentive mechanisms for encouraging the low carbon transition such as carbon taxes. In general, the approach suggested is one of examining things on a case-by-case basis and maintaining healthy scepticism.

The TPI introduced new benchmark low-carbon scenarios to their carbon performance analysis over the quarter, enabling investors to see if a company's carbon performance is aligned with a 1.5°C pathway. The new benchmark will be used for the annual assessment of the energy sector being conducted in Q4 of this year.
The TPI Global Climate Transition Centre was announced at the opening of the London Stock Exchange on 19th October 2021. The Centre will be a key part of post-COP26 financial infrastructure to support investor action on climate change and will dramatically increase TPI assessments from 400 companies today to 10,000, as well as assessing corporate debt and sovereign bonds.

The IGCC published a number of reports during the period and August saw the launch of the first global sector strategy piece covering the steel industry. This report outlines the priority actions for steel producers to align with the Paris Agreement goals. The 'Net Zero Standard for Oil and Gas' companies was also launched by the IIGCC in September, setting out what investors expect to be included as part of a company's plan to transition to netzero.
This month also saw the publication of the 'Investor Expectations of Companies on Physical Climate Risks and Opportunities'. This document sets out how risks and opportunities caused by the physical impacts of climate change can be integrated into the investment process. This is an area we expect to garner increasing focus over the coming months and years as transition plans begin the ramp up.

The Global Impact Investing Network (the GIIN) is the global champion of impact investing, dedicated to increasing its scale and effectiveness around the world. Over the last six months the Authority has been participating in an action learning exercise with a group of around 15 other European and North American investors focussed on understanding how to create a framework for asset owners to set monitor and manage impact objectives. Following a series of positive discussions this work will continue in the next calendar year aiming to create replicable frameworks in up to three specific topic areas.

Policy Development

This section of the report highlights a number of the key pieces of policy related activity which have taken place during the quarter.

Impact Reporting
Over the quarter data gathering continued and Minerva presented their first cut report to officers on 24th November. Depending on the amount of further analysis required the final product will be presented either to the January or March Authority meetings. This work has taken far longer than anticipated which reflects the difficulties with gathering data from so many managers and the inconsistency in approaches to data and metrics across the industry.

All Party Parliamentary Group on Local Authority Pension Funds
The All-Party Parliamentary Group has published the final report of its inquiry focussed on the role of LGPS funds within a Just Transition to a Net Zero world. The report can be found here. SYPA submitted evidence to the inquiry which is quoted in a number of places. The report makes 23 recommendations focussed on government, LGPS Funds and the wider investment community. Of particular note as specifically relevant to the LGPS investment process amongst the recommendations are:

- A recommendation that investors include a commitment to a just transition within their policy framework.
- A recommendation that a baseline assessment of just transition risks should be undertaken by investors.
- A recommendation that a common set of measures be established.
- Consideration should be given to widening the TCFD framework to include the just transition agenda and also to what disclosures in relation to social risks should become mandatory.
- Clear expectations should be set for companies in terms of the just transition.
- Engagement processes should have an escalation process where progress is not being made.
- Funds should consider both the specific investment opportunities to support the just transition (e.g. through specific funds or aggregators) and also how they can invest locally to support a just transition.
- Funds should report on the nature and scale of the just transition risks they face and their success in addressing them.

These recommendations provide a valuable and interesting addition to the continuing debate around reporting and disclosure, however, as reflected in our own experience the willingness of fund managers to co-operate and provide standardised data is fundamental to achieving any increase in disclosure. This probably means that disclosure obligations will need to be placed more widely across the investment chain rather than just on LGPS funds.

Place Based Impact Investing Forum
As previously reported the Authority has contributed to work to identify the potential of place-based impact investing within the LGPS and the UK more widely. This culminated in the publication of a white paper earlier in the year. Pensions for Purpose have now established a forum to share and further develop good practice in this area. This was recently launched at an on-line event with over 100 attendees, and officers have agreed that the Authority should join the Forum as it will assist in strengthening our work in this area.

Pensions for Purpose Awards
The Authority has supported Pensions for Purpose (PfP) since 2019 as a platform for sharing and developing knowledge about responsible and impact investment. PfP run an annual award scheme focussing on these areas. SYPA was nominated by PfP for the Impact Investing Adopters Award (sponsored by the Impact Investing Institute and Earth Capital) alongside the Clwyd and Surrey Pension Funds. The nomination was based on a case study interview provided by the Authority as part of its commitment to the Impact Investing Principles which is available here. The Authority won this award and the judges commented *"This was the best submission in my view. The adoption of a clear net-zero target is ambitious but impressive. There is a clear focus on particular SDGs. The engagement strategy is work in progress as is their impact measurement approach, but the timelines look good."*

Investment in Israel and Palestine
The United Nations Special Rapporteur on the Palestinian Territories has written to all LGPS funds and the Scheme Advisory Board (on 22nd November) asking a number of questions about investments in companies which have dealings in the Occupied Territories. The LAPFF have been undertaking work in this area for some time and are continuing to engage with companies with regard to their human rights' due diligence processes in this area. Given the Government's intention to legislate in relation to the taking of "foreign policy stances" in the context of LGPS investment this is likely to be a difficult area and further advice and clarification will be needed from both the Scheme Advisory Board and LAPFF before a response can be formulated.

Future Work Programme
The Authority's work programme over the next 12 months in this area includes

- The Annual Review and Update of the Responsible Investment Policy Framework (March)
- The first update to the Net Zero Action Plan (March)
- A review of adherence to the Impact Investing Principles for Pension Funds (June)
- Publication of the first impact report (January)
- Commencing the second round of impact reporting data gathering (March)
- Receiving the result of the first 2020 Stewardship Code submission (imminent) and commencing the second submission.
- Responding to the expected consultation on regulations to mandate TCFD reporting in the LGPS
- Potentially the procurement of additional external support with the data required for more comprehensive data to support TCFD reporting.
- Participating in the ongoing development of Border to Coast's responsible investment work
- Delivering ongoing improvements to reporting and transparency

As can be seen from this list this is an area of continuing growth in activity and there will be a need at some point to consider the levels of resource available to support this work internally.

As the data provided by Border to Coast in relation to ESG scores and carbon emissions is provided by an external third party the following legal wording is required to be included within this report.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Annual Review and Update of the Border to Coast Responsible Investment Policies**	**Status**	For Publication
Report to	Authority	**Date**	9th December 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 the Authority's endorsement for the various Border to Coast Responsible Investment policies following their annual review.

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2 Recommendations

2.1 Members are recommended to:

a. **Endorse the various Border to Coast policies at Appendices A to C**

b. **Welcome the company's adoption of a climate change policy and its adoption of a Net Zero commitment.**

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3 Link to Corporate Objectives

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

Responsible Investment

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

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report will directly impact on the Authority's ability to achieve the necessary mitigations of the identified corporate risk relating to the impact of climate change on the value of investment assets, as well as the more general investment related risks that are mitigated by ensuring that effective stewardship arrangements are in place.

5 Background and Options

5.1 Each year Border to Coast conducts a review of its Responsible Investment Policy and Voting Guidelines so that they can be updated for the following voting season. In addition, this year responding to work undertaken with partner funds and overall developments in the industry the Company has also developed a stand-alone climate change policy. It is important to recognise that these are all collective documents which represent the company's position based on the consensus position of the partner funds. As such there is, inevitably, a degree of compromise in relation to the positions of the individual partner funds. The documents themselves are attached as Appendices A to C.

5.2 The Responsible Investment Policy has been updated to reflect the creation of the separate climate change policy and includes two specific exclusions from the investment universe, i.e. types of company that will not be invested in because the nature of the business presents significant negative risks for shareholders. The specific exclusions are pure coal and tar sands companies (that is companies generating substantially all of their revenues from these sources). These specific exclusions are very common across the industry and will not result in any specific sales of stocks in the current equity portfolios as the relevant managers have been operating them in practice anyway for the good investment reasons that these factors negatively impact potential shareholder returns. In all other respects the thrust of the policy remains as before, and as has long been the case for SYPA, a focus on engaging with and addressing issues with individual companies rather than acting in relation to whole classes of company. The policy does also now make clearer the process to be followed where a process of engagement has not achieved its aims. The policy also identifies, following discussion with Partner Funds, the focus areas for engagement over the next three years as shown below

Nature of Risk	Systemic Issues	Environmental	Social	Governance
Issue to Address	Climate Transition	Waste and Water Management	Social Inclusion through Labour Management	Diversity of thought
Aim	Aims to engage both high emitters and banks identified as key to financing the transition to a low-carbon economy to commit to credible plans to meet net-zero targets.	Aims to engage portfolio companies with high exposure to water intensive operations producing high levels of packaging waste to develop policies and initiatives to address the issue(s)	Aims to engage companies with high exposure to labour intensive operations and lower scoring companies in relation to human capital development and supply chain labour management risk	Aims to engage companies on plans to improve diversity within their workforce, including the establishment of workforce diversity programmes with a focus on equal opportunities

5.3 Two of the four themes identified directly reflect priorities identified within the Authority's Responsible Investment Beliefs Statement, while the climate theme also relates to the priority around affordable and clean energy. The other two themes reflect on the behaviours identified within the Beliefs Statement which characterise well governed assets. Thus, there is a very significant degree of alignment between the priorities identified by Border to Coast following discussion and engagement with Partner Funds and the Authority's Beliefs Statement. Border to Coast will be providing briefing materials for members on the reasons why each of these issues is an important target for engagement.

5.4 The main changes to the Voting Guidelines are:

- A strengthening of the position in relation to Board Diversity with a commitment to vote against the Chairs of FTSE 100 nomination committees where the Board does not include at least one person from an ethnic minority background. This mirrors a similar ratcheting up approach previously taken in relation to gender diversity.
- A clearer position on the alignment of executive pension arrangements with those of the majority of the workforce.
- A clearer expectation that companies should ensure that any trade associations to which they belong should be putting forward positions on climate change aligned with those of the company.
- Further definition of the position in relation to the criteria for voting against the Chair where the company's progress in relation to the climate transition is deemed insufficient.

5.4 These are all changes which would support the Authority's general position and reflect an ongoing ratcheting up of expectations with clear consequences in terms of the way in which votes are cast. This is an approach which is consistent with the long-standing approach that the Authority has taken and it would therefore be appropriate for the Authority to endorse these guidelines.

5.5 The Climate Change policy is an entirely new policy and has been developed through a process which has examined wider international best practice and is utilising similar tools to those adopted by SYPA such as the IIGCC framework in order to create an action plan and measure progress. The key statement within the policy is a commitment to Net Zero by 2050 or sooner. While it might be regarded as disappointing that SYPA has not been able to persuade others of the merits of a target more in line with its own 2030 goal the achievement of a consensus around a target of any sort, given the varied starting points of partners, is, in itself, a significant achievement. As has previously been explained the Authority does retain a number of asset allocation levers which could make the earlier goal achievable regardless of the wider partnership, and movement by the wider partnership towards Net Zero (even if on a slower trajectory) will still assist the Authority in achieving its goal.

6 <u>Implications</u>

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

Financial	None directly
Human Resources	None
ICT	None
Legal	The policies properly address the wider range of risks which can impact shareholder value while ensuring that decisions are made on appropriate investment grounds.
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**

Responsible Investment Policy

Border to Coast Pensions Partnership

November 2021

Responsible Investment Policy

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

1. Introduction

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

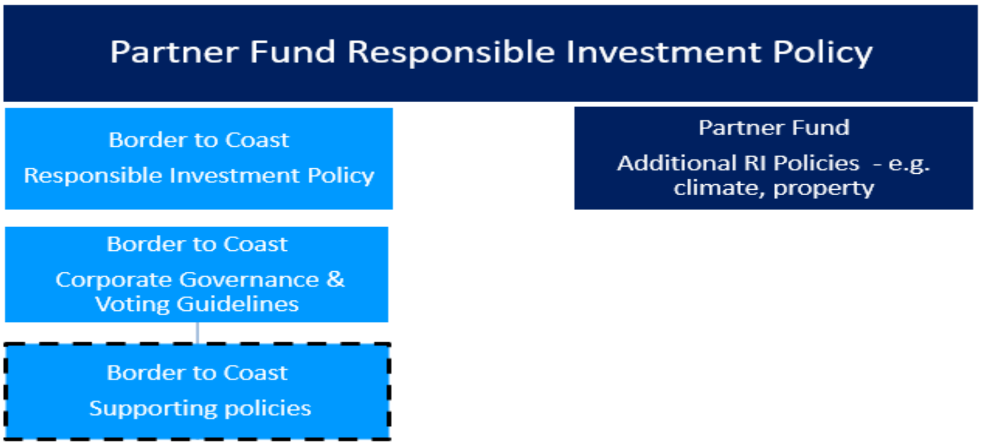
Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and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

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

1.1. Policy framework

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

RI Policy Framework



2. What is responsible investment?

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

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

3. Governance and Implementation

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

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

4. Skills and competency

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

5. Integrating RI into investment decisions

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

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

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

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all internally and externally managed assets of Border to Coast. More information on specific approaches is outlined below.

5.1. Listed equities (Internally managed)

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

ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase and maintain knowledge, and portfolio managers will be involved in the voting process.

5.2. Private markets

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

- The assessment of ESG issues is integrated into the investment process for all private market investments.

- A manager's ESG strategy is assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

5.3. Fixed income

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

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

5.4. Real estate

Border to Coast is considering making Real Estate investments through both direct properties and real estate funds. For real estate funds, a central component of the fund selection/screening process will be reviewing the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will be energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which will involve procuring a third-party manager and working with them to develop a best-in-class approach to managing ESG risks.

5.5. External manager selection

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process and to their approach to engagement. We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

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

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. We will encourage managers to become signatories to the UN-supported Principles for Responsible Investment. Managers will be required to report to Border to Coast on their RI activities quarterly.

5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and the likelihood for success in influencing company strategy and behaviour. Using these criteria and due to the potential for stranded assets, we interpret this to cover pure coal and tar sands companies and will therefore not invest in these companies. Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website.

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are committed to being a signatory to the 2020 UK Stewardship Code[1] and have made an application to become a signatory by submitting our 2021 Responsible Investment & Stewardship Report to the

[1] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. https://www.frc.org.uk/directors/corporate-governance-and-stewardship

Financial Reporting Council; we are also a signatory to the UN-supported Principles of Responsible Investment[2].

6.1. Voting

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

6.1.1. Use of proxy advisors

Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A Robeco team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

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

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

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.

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

- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depositary until one day after meeting date.

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

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

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights.

The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties, we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

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

- Border to Coast and all eleven Partner Funds are members of the LAPFF. Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.

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

- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, an external voting and engagement service provider has been appointed. Border to Coast provides input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participates in some of the engagements undertaken on our behalf.

- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[3] breaches or OECD Guidelines[4] for Multinational Enterprises breaches.
- We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

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

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

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue. For all engagements, SMART[5] engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues. Members of the investment team have access to our engagement provider's Active Ownership profiles and engagement records. This additional information feeds into the investment analysis and decision making process.

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

6.2.1. Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

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

[4] OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

[5] SMART objectives are: specific, measurable, achievable, relevant and time bound.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

6.2.2. Escalation

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

6.3. Due diligence and monitoring procedure

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

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

7. Litigation

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

8. Communication and reporting

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

We also report in line with the TCFD recommendations.

9. Training and assistance

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

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

10. Conflicts of interest

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

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Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

November 2021

1. Introduction

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

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

2. Voting procedure

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

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. In some instances, attendance at AGMs may be required.

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

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

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

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

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

Composition and independence

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

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

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

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

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.

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

Leadership

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

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

Non-executive Directors

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

Diversity

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

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed.

Succession planning

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

Directors' availability and attendance

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

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

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with issues such as stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

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

Engagement and dialogue with shareholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

Directors' remuneration

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

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary

[11] A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.

levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

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

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues. The selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

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

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

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• **Long-term incentives**

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

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. Poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

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

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

The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should be aligned with those of the majority of the workforce, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

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

Every annual report should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks.

We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

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

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

Non-Audit Fees

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

Political donations

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

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

Shareholder rights

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

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **Voting rights**

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

- **Authority to issue shares**

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

- **Disapplication of Pre-emption Rights**

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

Share Repurchases

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

Memorandum and Articles of Association

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

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

Mergers and acquisitions

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

Articles of Association and adopting the report and accounts

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

Virtual Shareholder General Meetings

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

Shareholder Proposals

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

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

Climate change

We expect companies with high emissions or in high emitting sectors to have a climate change policy in place, which at minimum includes greenhouse gas emission reduction targets and disclosure of Scope 1 and 2 emissions. We use the Transition Pathway Initiative (TPI)[2] toolkit and the Climate Action 100+ Net Zero Benchmark (CA100+ NZB) to assess our listed equities investments. Both tools enable us to assess how companies are managing climate change, the related business risk and the progress being made. Where a company in a high emitting sector receives a score of zero or one by the TPI, or fails to meet the expectations above, we will vote against the Chair of the board if we consider the company is not making progress. Where a company covered by CA100+ NZB fails the first four indicators of the Benchmark which includes a net-zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the board.

Investment trusts

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

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

Climate Change Policy

Border to Coast Pensions Partnership

Policy Owner: The Chief Investment Officer
Live from: 1 October 2021

Climate Change Policy

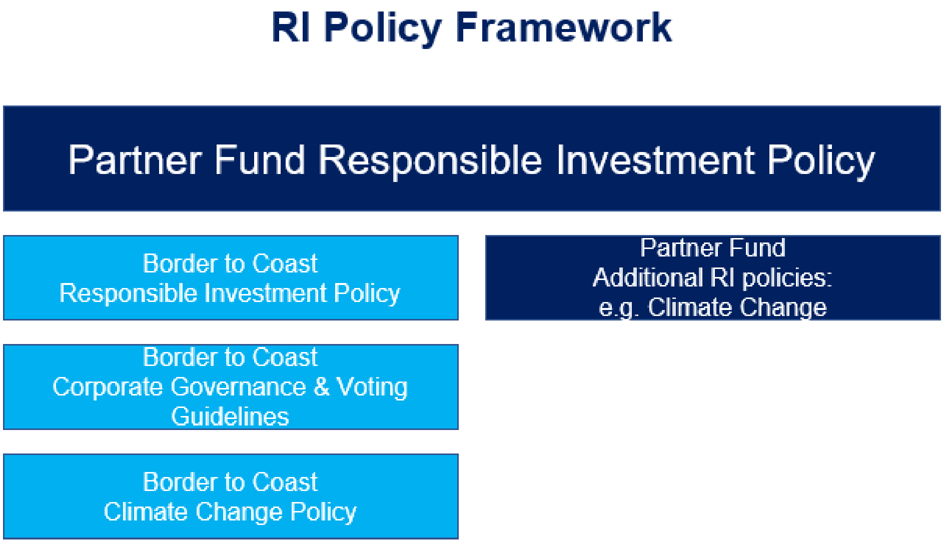
This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. Our planet has warmed by over 1ºC relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming.

Atmospheric CO_2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO_2 and other greenhouse gases (GHG) are not reduced to mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, "Global warming of 1.5ºC"[1], which starkly illustrated how critical successful adaptation to limit global warming to 1.5ºC is. The report found that limiting global warming to 1.5°C would require "rapid and far-reaching" transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach 'net zero' around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change.

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Our climate change strategy is split into four pillars**: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.** We will continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

[1] https://www.ipcc.ch/sr15/

2.3 How we execute our climate change strategy

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

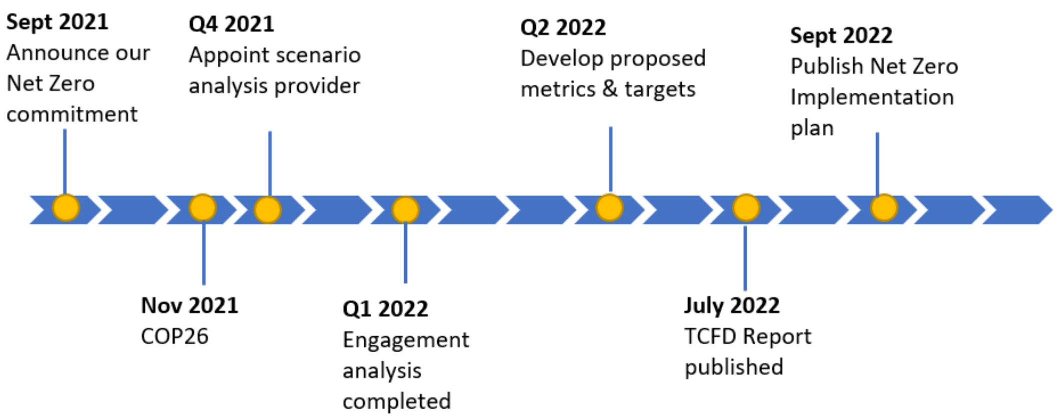
We consider climate change risks and opportunities within our investment decision making process.

Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

We are committed to transparency regarding our climate change issues and activities.

2.4 Roadmap

The roadmap demonstrates the milestones to implement the policy over the next 12 months.



3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We will continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we will continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the TCFD report.

In support of our Net Zero commitment, we will develop and set out a plan with high-level targets for each of the four supporting pillars of our climate change strategy which will be published in September 2022.

3.2 Governance and implementation

We take a holistic approach to sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability is considered and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

The Board determines the Company's overall strategy for climate change and with support from the Board Risk Committee, oversees the identification and management of risk and opportunities. The Board is responsible for the oversight of climate related impacts as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the TCFD report prior to publication.

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Each year the CIO reviews the implementation of the policy and reports any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to manage environmental, social and governance (ESG) issues including climate change. Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is the role of the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK regulations, and wider regulation including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework. The Company operates a risk management framework consistent with the principles of the 'three lines of defence' model, with external assurance providers acting as a fourth line. Risks to the Company are owned and managed by the business or functional areas (1st Line of Defence) and are subject to oversight and challenge by the Risk and Compliance Function (2nd Line of Defence) and independent assurance by Internal Audit (3rd Line of Defence).

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The Transition Pathway Initiative[2] tool and climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

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[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

We are developing climate risk assessment for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2ºC), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This will necessarily be an iterative process, recognising that data, tools and methodologies are developing rapidly.

We are reviewing how we conduct scenario analysis across our portfolios, evaluating tools and external providers and different scenarios and expect to have this in place during 2022.

We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050. Work will be undertaken during 2022 to assess and define any targets based around this commitment.

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. Using these criteria and due to the potential for stranded assets, we interpret this to cover pure coal and tar sands companies and will therefore not invest in these companies. Any companies excluded will be monitored with transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual TCFD report.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings and Climate Action 100+ Net Zero Company Benchmark to assess companies' transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised.

Carbon footprints are conducted relative to the benchmark.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We are therefore considering the role private markets will play in managing transition risk and how we can invest in climate change opportunities as part of our Private Markets offering.

5.3 Working with external managers

Assessing climate risk is an integral part of the external manager selection and appointment process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We encourage managers to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we assess and monitor where managers are making net zero commitments.

6 Engagement and advocacy

As a shareholder, we have responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe success for our climate ambition can be supported by effective stewardship and governance oversight.

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy. We practice active ownership through voting, monitoring companies, engagement and litigation. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reaching Net-Zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; and exposure to climate-stressed regions.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change, Climate Action 100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the Transition Pathway Initiative.

In particular, we are currently focusing on the following actions:

- Vote against company Chairs in high emitting sectors where the climate change policy does not meet our minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.
- Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy. We will co-file shareholder resolutions at company AGMs on climate risk disclosure, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner Robeco and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Use carbon footprints and the TPI toolkit to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of the Institutional Investor Group on Climate Change (‘IIGCC’). We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

7 Disclosures and reporting

Transparency is one of our key organisational values. We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities. We will keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy, as well as our exposure to the risks and opportunities of climate change.

During 2021 and 2022 we will be focusing on the following actions:

- Reviewing on an annual basis how we are implementing this Climate Change Policy. The findings will be reported to our Board and Partner Funds, as well as made publicly accessible through our TCFD and Stewardship reports and other disclosures.
- Reporting in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to climate change. We published our first TCFD report in 2020 and will look to evolve and refine our TCFD report, reflecting further developments that we undertake as part of implementation of this policy.
- Disclosing our voting activity.
- Reporting on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.
- Disclosing climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.
- Reporting our progress against the Net Zero Investment Framework.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Guaranteed Minimum Pension Rectification Policies**	**Status**	For Publication
Report to	Authority	**Date**	9th December 2021
Report of	Director and Head of Pensions Administration		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director Jason Bailey Head of Pensions Administration	**Phone**	01226 666439 01226 666431
E Mail	ggraham@sypa.org.uk jbailey@sypa.org.uk		

1 Purpose of the Report

1.1 To secure approval for policies to be followed in implementing the rectification of Guaranteed Minimum Pensions (GMP's) in payment following completion of the reconciliation exercise.

---

2 Recommendations

2.1 Members are recommended to:

a. **Note the position that has been reached in the GMP reconciliation exercise as set out in this report.**

b. **Approve the implementation of the policies outlined in paragraph 5.5 in relation to the rectification of GMP's already in payment.**

---

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).

Effective and Transparent Governance

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

4 Implications for the Corporate Risk Register

The GMP reconciliation process remains an identified corporate risk. The agreement of the policies outlined in this report allows the completion of the rectification exercise which will complete this element of the work required in relation to GMP's and allow the current risk to be removed from the risk register. There are other potential risks around GMP's in terms of potential gender equality issues but it is not clear how and when they will be dealt with in terms of the scheme regulations so for the moment these are not identified as risks as the scale of the issues involved and potential solutions cannot effectively be quantified. Clearly there are also reputational issues which remain where pensions in payment are being reduced and while the Authority will seek to communicate as clearly as possible to scheme members around these issues actioning these changes is a regulatory requirement and this is a risk that cannot be mitigated further.

5 Background and Options

5.1 The Coalition Government made reforms of the state pension system to introduce what is termed the "Single Tier State Pension". This replaced the basic pensions and the State Second Pension (S2P or SERPS). Members of occupational pension schemes such as LGPS were opted out of the State Second Pension as a result of which their National Insurance Contributions were adjusted. However, in order to ensure that members of occupational schemes were treated no less well than members of the state scheme there was a requirement for individuals to receive a Guaranteed Minimum Pension (GMP) as part of their benefits. The main impact for scheme members historically is that responsibility for annual index-linking on the GMP element was in certain circumstances split between the fund and HMRC . The creation of the new single tier state pension resulted in the abolition of "opting out" for members of occupational pension schemes and therefore it became necessary to reconcile the records held by HMRC with those held by pension funds to ensure that individuals were receiving the correct GMP benefit and then address any anomalies.

5.2 It is fair to say that this has been a long and tortuous process for all concerned made more complicated by the challenges presented by the timescale over which the reconciliation exercise needed to take place.

5.3 SYPA commissioned ITM, an experienced data management provider, in 2017 to undertake this work, recognising both the specialist nature of the task and the lack of spare capacity within its own staffing resources to carry out such a large and specialist one off task. ITM have now reached the stage where they are in a position to make amendments to both benefits in payment and the benefit entitlements of individuals who have yet to retire. The table below summarises the position.

5.4 It should be emphasised that the cases of historic under and over payments identified are the result of the complexities of the regulations combined with differences between SYPA and HMRC records and not as a result of anything done by individual scheme members.

5.5 The Authority needs to determine its policy in relation to adjusting benefits already in payment. The proposed policies are set out below and reflect practice adopted by other administering authorities and supported by the LGA.

1. For cases where the scheme member will benefit from an increase in the amount in payment the increase should be paid together with arrears from the date at which

the pension went into payment [plus interest calculated in line with the arrangements set out in the LGPS regulations]

2. For cases where the scheme member will see a reduction in the amount in payment the reduction will be applied after notice has been given, and no attempt will be made to recover any historic overpayment on the grounds that this is likely to be impractical and disproportionate given the relatively small amounts generally involved.
3. For cases where the difference between the fund's GMP amount and HMRC records is less than £2 per week, no adjustment to be made. This is in line with advice from HM Treasury issued to all public service pension schemes in 2016.

5.6 To ensure appropriate transparency once ITM have completed the work of implementing the rectification exercise the Authority will be asked to approve the write off of the amounts not to be recovered from scheme members who had previously been overpaid as a single block amount. This may include individual cases where it might not be appropriate for economical or circumstantial reasons to reduce the existing pension. This will have no impact on the accounts as the sum will not have been raised as a debtor but does ensure a clear audit trail for the process.

5.7 The intention is to complete this rectification exercise by July 2022 in order to provide as clean as set of data as possible for the valuation and also ahead of the McCloud rectification process as it is highly desirable that the two processes do not become intertwined.

6 Implications

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

Financial	The costs of the reconciliation exercise have amounted to £162k with the rectification process planned to cost a further £92k. These sums have been met within the overall operating budget since 2017. It is estimated that the arrears to be paid amount to £71k plus accrued interest with an ongoing annual increase to benefits in payment of £10k. This is offset by a reduction in benefits in payment of £172k per annum and an estimated write off of £378k in irrecoverable overpayments.
Human Resources	None
ICT	None
Legal	The Authority is legally obliged to apply the results of the reconciliation once it has been carried out.
Procurement	ITM were appointed using the LGPS National Procurement Framework for Third Party Administration Services

George Graham **Jason Bailey**

Director **Head of Pensions Administration**

Background Papers	
Document	**Place of Inspection**

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Procurement of Actuarial Services**	**Status**	For Publication
Report to	Authority	**Date**	9th December 2021
Report of	Director and Head of Pensions Administration		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director Jason Bailey Head of Pensions Administration	**Phone**	01226 666439 01226 666431
E Mail	ggraham@sypa.org.uk jbailey@sypa.org.uk		

1 Purpose of the Report

1.1 To formally report on the conclusion of the procurement process for actuarial services.

2 Recommendations

2.1 Members are recommended to:

a. **Note the outcome of the procurement process for actuarial services**

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).

Effective and Transparent Governance

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

4 Implications for the Corporate Risk Register

4.1 The effectiveness of the Authority's arrangements for securing actuarial services impact a number of risks included in the Corporate Risk Register, including those associated with contribution affordability.

5 Background and Options

5.1 At its meeting on 30th September 2020 the Authority agreed to undertake a new procurement process for actuarial services using the (then) soon to be completed new national framework agreement covering these services. The motivation for undertaking a further procurement was a combination of a desire to seek opportunities to improve the service provided to employers through making greater use of technology in supporting the actuarial process combined with a wish to better control what can be a significant cost both to the Fund and for some pieces of work for employers. All of the actuarial firms supporting the LGPS have made progress in both these areas since the last procurement undertaken by SYPA.

5.2 Following the new framework going live in July 2021 an invitation to further competition was issued to the four qualified actuarial firms on 13th September 2021 with three bids being received by 11th October. The bids were evaluated, and interviews held with the three bidding firms before a decision was made.

5.3 The nature of the national LGPS frameworks is that the process used to construct them provides a choice of providers (in this case 4) technically capable of providing the relevant services allowing the buyer to run a further procurement focussed on assessing the differentiating factors which are important to them. Given the drivers for undertaking the procurement this led the Authority to focussing the quality aspect of the process on the delivery of service and technological improvements to the actuarial process and weighting this equally with price.

Having reviewed the requirements set out by the Authority one provider chose not to participate further in the process on the basis of their own commercial judgement as to their likelihood of success. This is unfortunate in terms of reducing the level of competition, but providers have to make their own commercial judgements.

Provider	Overall Ranking	Quality Ranking	Price Ranking
A	Third	Third	Third
B	Second	Second	Second
C	First	First	First

5.5 While there were some differences in the quality scores all three providers would have provided access to technological innovations which would represent a step forward from where we are now. It is also the case that in terms of the actuarial teams being put forward all three firms put forward what would be regarded as their leading LGPS teams, perhaps reflecting the fact that given our size SYPA is regarded as something of a "catch" in the marketplace. The successful provider was differentiated by the fact that they could provide a number of the new tools from day one and had a very clear development path supporting a movement to employer and client self-service for a range of tasks.

5.6 In terms of price actuarial services are not a fixed fee type contract and the process uses the costs of typical actuarial functions (such as the triennial valuation) to evaluate price. The successful provider was ahead of the other two on price, and given this, officers questioned them on the assumptions used in their price submission. Given the diversity of the tasks that the actuary may be required to perform for the fund, any of the bids would have carried a risk of actual costs not being in line with the proposal.

However, the main functions carried out on behalf of employers and the fund include fixed pricing and the controls proposed by the successful provider in relation to the agreement of variations provide appropriate mitigation.

5.7 The successful provider is Hymans Robertson LLP, a Glasgow based actuarial practice, who provide actuarial services to around half of the LGPS, who have been appointed for an initial period of five years. The nominated Fund Actuaries are Catherine McFadyen who is a Partner and Head of the firm's LGPS Consulting Practice and Douglas Green who is a Partner, CV's are attached in the Appendix. The Firm puts forward two individuals to act as Fund Actuary in order to ensure cover and also, given the number of LGPS clients that they advise,to assist in managing potential conflicts of interest (for example where they are advising both the sending and receiving funds involved in a bulk transfer).

5.8 The procurement process has now concluded and the process of transition from the incumbent to the new provider has begun. The process has reinforced our understanding that the market had moved on in terms both of the nature of service provision and the cost of the service since the previous procurement was carried out in 2017. The delivery of these benefits will be based on the improvements in technology, and in increased levels of self-servicing, which will be an area of significant focus going forward.

6 Implications

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

Financial	There will be some reduction in costs charged to employers for activities such as accounting disclosures and the arrangements involved in admitting contractors to the Fund. While at individual employer level these will be relatively small, they will be noticeable and in aggregate are likely to be material. In terms of the costs chargeable to the Fund these are likely to reduce materially in relation to the 2022 Valuation Process as well as future valuations.
Human Resources	None
ICT	None. The contractual documentation includes appropriate requirements in terms of data protection and GDPR.
Legal	None specifically. The detailed contractual terms are set out in the framework agreement.
Procurement	The procurement was carried out using a fully compliant national framework specifically designed by and for the LGPS.

George Graham

Director

Jason Bailey

Head of Pensions Administration

Background Papers	
Document	**Place of Inspection**

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HYMANS ROBERTSON

Douglas Green

Partner and Fund Actuary

Responsibilities and experience

Douglas is a Partner in the firm and one of our most senior Fund Actuaries, with over 30 years' experience across the Local Government Pension Scheme and private sector schemes.

Douglas joined our Public Sector team in 2010 from Mercer, bringing over 20 years of consulting experience. He has a long track record of advising a variety of clients on most types of pension matters, including funding, bulk transfers, investment issues and accounting. He is also our internal resource on academy schools and professionalism.

Douglas is known for his straightforward and personal approach. He has earned plaudits for his effective communication with pension committees and Local Boards, employers 1:1 meetings and forums, and conference audiences of all sizes. For example, he headlined the actuarial slot at the 2021 LGC Investment Summit in Leeds, taking a unique "flaw of averages" slant on LGPS actuarial valuations, which a number of funds asked him to rerun for their committees.

Douglas very much looks forward to working with the South Yorkshire Pensions Authority.

Work history

Date	Organisation	Position
2010 – date	Hymans Robertson	Actuary & Partner (from 2015) Actuary (from 2010)
1987 – 2010	Mercer	Actuary (from 1994) Actuarial support (to 1994)

Professional qualifications

Fellow of the Institute and Faculty of Actuaries (FFA) (1994)

Other professional activities

Douglas is involved in formal submissions to the Actuarial Profession regarding the evolving regulatory regime for public sector actuarial work and from 2015 to 2021 he sat on the Profession's Quality Assurance Scheme sub-committee. He is also our internal resource on all accounting and professionalism issues in the LGPS.

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HYMANS ROBERTSON

Catherine McFadyen

Partner and Head of LGPS Actuarial, Benefits and Governance

Responsibilities and experience

Catherine is a Partner, Actuary and Head of our Public Sector practice with 18 years' experience in advising Local Government Pension Scheme (LGPS) funds on actuarial and employee benefit-related topics.

Catherine works strategically with our largest local authority clients in England and Scotland and is actuarial advisor to the Scottish LGPS Scheme Advisory Board. Catherine is responsible for the strategic development of our public sector business and ensures our services constantly evolve to meet our clients' current and future needs. Catherine is a regular speaker at industry events on key LGPS topics and maintains key relationships within MHCLG, the Scheme Advisory Board, PLSA and LGA.

Catherine also has experience of other public sector pension schemes including the Police Pension Scheme and Firefighters' Pension Scheme. She led the Quality Assurance Review of GAD's valuations of public service pension schemes and the Scheme Advisory Board's Good Governance review.

Catherine is looking forward to working with South Yorkshire Pension Fund.

Work history

Date	Organisation	Position
2018 - date	Hymans Robertson	Head of LGPS Actuarial, Benefits and Governance
2014 - date	Hymans Robertson	Partner
2003 - 2014	Hymans Robertson	Actuary
2001 - 2003	British Energy	Project Manager
1999 - 2001	PepsiCo	Technical Project Manager
1997 - 1999	PricewaterhouseCoopers	Management Consultant

Professional qualifications

Fellow of the Institute and Faculty of Actuaries (2008)
MSci Mathematics and Physics

Other professional activities

Catherine is a former examiner for the Institute and Faculty of Actuaries and supports various women in finance organisations

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Subject	Recommendations from the Audit Committee	Status	For Publication
Report to	Authority	Date	9th December 2021
Report of	Clerk		
Equality Impact Assessment	Required Not Required	Attached	Yes No
Contact Officer	George Graham Director	Phone	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To allow the Authority to consider recommendations made by the Audit Committee.

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2 Recommendations

2.1 Members are recommended to:

a. **Accept the recommendation of the Audit Committee that the Authority participate in the national audit procurement arrangements for the next procurement cycle as set out in Appendix A.**

b. **Receive the Annual Report of the External Auditor as set out in Appendix B and consider the comments of the Audit Committee set out in the body of this report**

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3 Link to Corporate Objectives

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

Effective and Transparent Governance

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

4 Implications for the Corporate Risk Register

The actions outlined in this report do not specifically address identified corporate risks, although the annual report of the external auditor does reflect on the effectiveness of the Authority's risk management arrangements.

5 Background and Options

5.1 The Audit Committee at its last meeting in October considered two items on which it made recommendations to the Authority.

5.2 The first item is the process for procuring future external audit services, details of which are set out in the report at Appendix A. The Audit Committee recommends that the Authority agree to participate in the national arrangements provided through Public Sector Audit Appointments Ltd. This is a decision that legally has to be taken by the Full Council or equivalent and is therefore this recommendation is being brought to the Authority for approval.

5,3 The second item for consideration is the annual report of Deloitte LLP the Authority's external auditor. While there is currently no requirement for this to be considered by the full Authority, it is considered good practice both in terms of transparency and the wider governance responsibilities of all members for this to be considered at Full Council or the equivalent. The Audit Committee made no specific recommendations for the Authority to consider but did note the generally positive nature of the report and the fact that the Authority was part of the 9% of local government bodies whose audit was completed in line with the required timescale.

6 Implications

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

Financial	As set out in appendices A and B
Human Resources	As set out in appendices A and B
ICT	As set out in appendices A and B
Legal	As set out in appendices A and B
Procurement	As set out in appendices A and B

Sarah Norman

Clerk

Background Papers	
Document	**Place of Inspection**

SOUTH YORKSHIRE PENSIONS AUTHORITY

Agenda Item

Subject	**Process for Future External Audit Appointments**	**Status**	For Publication Not For Publication
Report to	Audit Committee	**Date**	21st October 2021
Report of	Director and Treasurer		
Equality Impact Assessment	Not Required	Attached	Yes
Contact Officer	George Graham Director Neil Copley Treasurer	**Phone**	01226 772887 01226
E Mail	ggraham@sypa.org.uk n		

1 Purpose of the Report

1.1 To secure a recommendation from the Audit Committee to the Authority in relation to the route to be used for procuring an external auditor at the end of the current contract.

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2 Recommendations

2.1 Members are recommended to:

a. **Recommend to the Authority that future external audit services be procured through the Public Sector Audit Appointments arrangements.**

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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.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report do not specifically address any identified corporate risks.

5 Background and Options

5.1 The Authority's current external auditors, Deloitte LLP, were appointed through national procurement arrangements put in place by Public Sector Audit Appointments Ltd (PSAA), an organisation created and owned by the LGA. Around 99% of principal local authorities, police and fire authorities and other bodies such as National Parks and SYPA subject to the full local authority audit regime made use of this procurement route, rather than the more convoluted arrangements specified in the Local Audit and Accountability Act 2014 to make a local appointment.

5.2 Members will be aware of the issues within the local audit market which have been exacerbated but not caused by the pandemic. The combination of shortening accounts deadlines, ever more stringent auditing standards, many of which are arguably not wholly relevant to the local government sector, a declining level of specialist expertise and fee levels which are too low given the level of work required have all resulted in many sets of accounts not being audited on time and large fee variations. While the Authority's size and specialist nature has to some extent insulated us from the worst aspects of this, we have seen increased fees and a need for additional testing and audit procedures.

5.3 PSAA's current contracts come to an end following the completion of the 2022/23 accounts audit and the Authority is now being asked to consider whether it wishes to sign up to the next PSAA procurement, which will cover 5 years from the 2023/24 accounts. A decision is required by March 2022 and must be taken by a meeting of the Full Authority (as the equivalent of full council). The alternative is to make a separate appointment either for the Authority alone or in collaboration with other local authorities in South Yorkshire.

5.4 An appointment process for the Authority alone would be time consuming and costly as additional external support would be required in the evaluation. In addition it is not clear that a relatively small audit of this sort let as a free-standing contract would attract interest from a potential field which is limited to a small number of firms approved to carry out local authority audits. Thus, this can be ruled out.

5.5 The option of working with other local authorities in South Yorkshire is attractive, particularly if such an arrangement could attract a single audit firm for the whole system within the County. Bundled together this would certainly be attractive to the market and could generate additional benefits such as the need to locate a core team somewhere in the County. However, given the other pressures facing the various organisations it is not felt that it would be sensible to devote what would inevitably be not inconsiderable and quite senior resources to such a process at the present time.

5.6 Consequently, the option of using the PSAA arrangements is the one that is most convenient and most deliverable. However, from a purely SYPA point of view this is not without risk. As a relatively small audit, albeit one with a number of specialist features there is a danger that we are used as a makeweight to balance our workload between various providers, rather than focussing on the organisation's specific needs. This approach is also likely to result in a similar position to the current one where the local authorities within the County are audited by different firms adopting different approaches and interpretations of auditing standards.

5.7 While the procurement process to be undertaken by PSAA will seek to address some of the challenges posed by the current market situation solving them is a much wider issue which the Government is addressing through its response to the Redmond Review.

5.8 Ultimately given the impracticality of carrying out a local procurement with other South Yorkshire Authorities there seems to be little option but to recommend to the Full Authority that the procurement of the next external audit contract be undertaken through the PSAA arrangements.

6 Implications

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

Financial	None directly from this report. However, given the well-publicised issues within the local authority audit market it is expected that there will be a significant increase in fees following the next procurement exercise.
Human Resources	None
ICT	None
Legal	The proposed procurement route conforms to the requirements of the Local Audit and Accountability Act 2014.
Procurement	The procurement will be carried out in a legally compliant way.

George Graham **Neil Copley**

Director **Treasurer**

Background Papers	
Document	**Place of Inspection**
Correspondence from Public Sector Audit Appointments	SYPA Offices Floor 8 Gateway Plaza Barnsley.

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South Yorkshire Pensions Authority

Auditor's Annual Report 2020/21
15 September 21

Contents

Auditor's Annual Report

Appendices

Key messages

Audit opinion on the financial statements	We issued an unqualified opinion on the Authority and Fund's financial statements on 13 August 2021.

The Authority's arrangements to secure Value for Money

Financial Sustainability *How the body plans and manages its resources to ensure it can continue to deliver its services*	• The Authority recognised a surplus on the provision of services for the year ended 31 March 2021 of £172,000. • The Authority has a thorough annual financial planning and forecasting process and has set out a balanced Medium Term Financial Strategy from 2020/21 to 2022/23. • The Authority reports the financial position on a quarterly basis which includes an analysis of the actual expenditure incurred compared to budget.
Governance *How the body ensures that it makes informed decisions and properly manages its risks*	• The Authority has a detailed risk management process in place and performed an assessment of the risks of Covid-19 during the year. The Authority maintains a Risk Management Framework and risk register, which are reviewed on a quarterly basis by the Authority. • The Authority has a number of policies in place to ensure it makes properly informed decisions. The Authority has an approved decision methodology for investment and divestment decisions, which includes approval by finance personnel, and other key factors. Where necessary, decisions will be reviewed by the executive management team for comment before going to Audit Committee for final approval.
Improving economy, efficiency and effectiveness *How the body uses information about its costs and performance to improve the way it manages and delivers its services*	• The Authority assesses its performance through quarterly Corporate Performance Reports, which consider a number of measures, covering corporate, investment, pension administration and financial matters. • The Authority also engages with CEM benchmarking to perform benchmarking reviews on an ad hoc basis to identify areas for improvement. The most recent review performed was an investment cost effectiveness analysis undertaken in March 2020.

Purpose of this report

Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at South Yorkshire Pensions Authority ("the Authority") for the year ended 31 March 2021.

This report is intended to bring together the results of our work over the year at the Authority, including commentary on the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM").

In preparing this report, we have followed the National Audit Office's ("NAO") Code of Audit Practice and its Auditor Guidance Note ("AGN") 07. These are available from the NAO's website.

A key element of this report is our commentary on the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources. Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Authority has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Authority has in place, nor does it provide positive assurance that the Authority is delivering or represents value for money. Where we find significant weaknesses in the Authority's VFM arrangements or areas where arrangements could be further strengthened, we include recommendations setting out what the Authority needs to do to strengthen its arrangements. We have found no significant weaknesses in our audit work for 2020/21.

Assurance sources for the Authority

The diagram below illustrates how the assurances provided by external audit around finance, quality, controls and systems, and the future of the Authority (set out in the green rows) fit with some of the other assurances available over the Authority's position and performance.

	Financial How is the Authority performing financially?	**Quality and Operational** How is the Authority performing operationally and in quality of outcomes?	**Controls and Systems** Does the Authority have adequate processes?	**Future of the Authority** Is the Authority's strategy appropriate and sustainable?
Business processes and Board/Committee oversight	Is reliable reporting and data being produced through the year, at each level within the Authority, and appropriately reviewed and followed up?			
	Is the Statement of Accounts, taken as a whole, fair, balanced and understandable?		Are the Authority's processes operating effectively?	Are the Authority's plans realistic and achievable?
	Is the Authority meeting its legal and regulatory obligations, and are appropriate plans in place to maintain compliance?			
	Has the Authority delivered on its financial plans?	Are quality priorities selected appropriate for the Authority?	Does the Authority have efficient systems and processes?	Are appropriate actions in place to deliver the Authority's plans?
	Is the Authority generating sufficient surplus for reinvestment?	Are quality metrics reported accurate and complete?	Are risks around legacy systems etc appropriately mitigated?	What are the risks to achievement of the Authority's plans and are appropriate mitigations in place?
Internal audit assurance	Is there a generally sound system of internal control on key financial and management processes?			
	Has the Authority suffered losses due to fraud?		Does the Authority have appropriate arrangements in place to mitigate fraud risks?	
External Audit assurance on reported performance	Do the financial statements give a true and fair view? Have the financial statements been properly prepared?		Is the Annual Governance Statement misleading or inconsistent with information we are aware of from our audit? *	Is there significant uncertainty over the going concern assumption?
	Is the Annual Governance Statement consistent with the financial statements? *		Has the Authority made proper arrangements for securing economy, efficiency and effectiveness in the use of resources?	

* The scope of external audit in this area is "negative assurance" of reporting by exception of issues identified.

Opinion on the financial statements

We provide an independent opinion on whether the Authority and Fund's financial statements:

- Give a true and fair view of the financial position of the Authority and Fund at 31 March 2021 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21; and
- Have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

The full opinion and certificate are included in the Authority's Statement of Accounts, which can be obtained from the Authority's website.

We conduct our audit in accordance with the NAO's Code of Audit Practice, International Standards on Auditing (UK) ("ISAs (UK)") and applicable law.

We are independent of the Authority in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements	We issued an unqualified opinion on the Authority's financial statements on 13 August 2021. We did not identify any matters where, in our opinion, proper practices had not been observed in the compilation of the financial statements.
Annual Governance Statement	We did not identify any matters where, in our opinion, the Annual Governance Statement did not meet the disclosure requirements set out in the CIPFA Code of Practice, was misleading, or was inconsistent with information of which we are aware from our audit.
Narrative Report	We are satisfied that the information given in the narrative report for the year ended 31 March 2021 is consistent with the financial statements.
Reports in the public interest and use of other powers	We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2021.
Audit Certificate	We certified completion of the audit on 9 September 2021, following completion of our responsibilities in respect of the audit for the year ended 31 March 2021.

Our financial statement audit approach

An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the Authority and Fund and the environment they operate in, including internal control, and assessing the risks of material misstatement to the financial statements. Our risk assessment procedures include considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address identified risks of material misstatement.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, led by the audit partner, Nicola Wright. The audit team included integrated Deloitte specialists bringing specific skills and experience in local government pension schemes, property valuation and information technology systems.

Materiality

Our work is planned and performed to detect material misstatements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Authority to be £117k, on the basis of 2% of expenditure. We set materiality for the Fund as £98,600k, on the basis of 1% of net assets.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £6k for the Authority and £4,900k for the Fund as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Procedures for auditing the Authority's financial statements

Our audit of the Authority and Fund's financial statements included:

- developing an understanding of the Authority and Fund, including its systems, processes, risks, challenges and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the Authority and Fund's financial statements;
- interviewing members of the Authority and Fund's management team and reviewing documentation to test the design and implementation of the Authority and Fund's internal controls in certain key areas relevant to the financial statements; and
- performing sample tests on balances in the Authority and Fund's financial statements to supporting documentary evidence, as well as other analytical procedures, to test the validity, accuracy and completeness of those balances.

Approach to audit risks

We focused our work on areas where we considered there to be a higher risk of misstatement. We refer to these areas as significant audit risks.

We provided a detailed audit plan to the Authority and Fund's Audit Committee setting out what we considered to be the significant audit risks for the Authority and Fund, together with our planned approach to addressing the risk. We have provided a summary of the significant audit risks on the next pages.

We have made recommendations in our Audit Committee reporting for improvement in the Authority and Fund's policies, procedures and internal controls based on observations from our work in relation to the IT environment. However, we do not consider these recommendations to reflect significant weaknesses in the Authority's VfM arrangements.

Financial statement audit significant risk

Management override of controls – Authority and Fund

Risk identified	In accordance with ISA 240 (UK), management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions. Note 4 of the Authority's financial statements details the assumptions made about the future and other major sources of estimation uncertainty.
Deloitte response	**Manipulation of accounting estimates** We tested the design and implementation of controls in relation to accounting estimates. We tested accounting estimates, including the local government pension scheme liability valuation, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded and inputs to estimates to relevant supporting information. **Manipulation of journal entries** We tested the design and implementation of controls over journals. We used data analytic techniques to select journals for testing with characteristics indicative of potential manipulation of reporting, focusing in particular upon manual journals. **Accounting for significant or unusual transactions** We considered whether any transactions identified in the year required specific consideration and did not identify any requiring additional procedures to address this key audit matter.
Key observations	We did not identify any issues from this testing.

Financial statement audit significant risk

Valuation of directly held property - Fund

Risk identified	The Fund has a significant holding in directly held UK properties (31 March 2021 valued at £762m, split into Commercial property of £580m, and agricultural property of £182m). The valuation of these properties is based on assumptions such as rental returns and occupancy rates, geographical location and market trends. Trading conditions in the retail sector have increased the uncertainty, and level of judgement, in the valuations of properties in this sector. These have been impacted significantly by the COVID-19 pandemic - with rental holidays, closure of offices and retail outlets as well as falling demand across the real estate market causing uncertainty across the year. These uncertainties are predominantly present in the commercial property portfolio, and we have therefore pinpointed our significant risk to commercial property, with the agricultural property portfolio being an area of audit focus.
Deloitte response	We tested the design and implementation of controls around the valuation of directly held properties We have assessed the reliability, competence and capabilities of managements expert. We have engaged with Deloitte Real Estate, our internal valuation specialists, who reviewed in detail a sample of property valuations. They assessed the assumptions used in the JLL valuation report to ensure they were materially accurate.
Key observations	We did not identify any issues from this testing.

Auditor's work on Value for Money (VfM) arrangements

The Accounting Officer and the Pensions Authority are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

The Accounting Officer reports on the Authority's arrangements, and the effectiveness with which the arrangements are operating, as part of their Annual Governance Statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Under the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas:

Financial Sustainability	*How the body plans and manages its resources to ensure it can continue to deliver its services*
Governance	*How the body ensures that it makes informed decisions and properly manages its risks*
Improving economy, efficiency and effectiveness	*How the body uses information about its costs and performance to improve the way it manages and delivers its services*

In this report, we set out the findings from the work we have undertaken. Where we have found significant weaknesses in arrangements, we are required to make recommendations so that the Authority can consider them and set out how it plans to make improvements. We have not identified any significant weaknesses in arrangements.

In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. As a result of the Covid-19 pandemic, there have been changes in nationally led processes, changes in expectations around the Authority's arrangements, and events occurring outside of the Authority's control, which affect the relevance of some of these indicators. We have still considered whether these indicators are present, but have considered them in the context of the circumstances of 2020/21 in assessing whether they are indicative of a risk of significant weakness.

In addition to our financial statement audit, we performed a range of procedures to inform our VfM commentary, including:

- **Interviews with key officers, including Gillian Taberner (Head of Finance and Corporate Services) and George Graham (Director).**
- **Review of Board and Committee reports and attendance at Audit Committee meetings.**
- **Reviewing reports from third parties including internal audit.**
- **Considering the findings from our audit work on the financial statements.**
- **Review of the Authority's Annual Governance Statement and narrative report.**

VfM arrangements: Financial Sustainability

Approach and considerations

We have considered how the Authority plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Authority ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans, and builds these into them;
- How the Authority plans to bridge its funding gaps and identifies achievable savings;
- How the Authority plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Authority ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Authority identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

Commentary

The Authority recognised a surplus on the provision of services for the year of £172,000. At 31 March 2021, the Authority had net liabilities of £12.2m (31 March 2020: £11.1m), net current assets of £1.6m (31 March 2020: £0.9m), and cash of £0.4m (31 March 2020: £0.4m). The net liability position is driven by the pensions liability and therefore is not considered a risk. The Authority's useable reserves have increased by £600,533 to £1,611,267. The reserves have been earmarked to finance the major capital projects planned by the Authority, the most significant being the refurbishment and fit-out of the new office premises in 2021/22.

There has been limited impact of the Covid-19 pandemic on the Authority. The Authority has implemented remote working during the year in line with the national guidance and incurred additional costs in relation to the purchase of IT equipment. However, as their expenditure is recharged to the Pension Fund, there has been no impact on the overall financial sustainability of the Authority.

The Authority has a thorough annual financial planning and forecasting process. The financial plan is considered as part of the overall operational planning process and this process is lead by the Director and Head of Finance. The Authority has a balanced Medium Term Financial Strategy for 2020/21 to 2022/23. In preparing the 2020/21 budget, the Authority has performed a full review of the base budget due to the significant changes that have occurred over the previous two years. This involved reviewing both the internal and external environments to ensure that all financial pressures were identified and factored in to the budget. The 2020/21 budget is linked to the corporate objectives and has been prepared to ensure the Authority has sufficient resources to deliver services.

VfM arrangements: Financial Sustainability - continued

Commentary

Due to the nature of the Authority, the expenditure incurred is funded by the Pension Fund in accordance with regulations. The Authority is, therefore, less exposed to the wider constraints on the public sector financial environment. As such, there is no funding gap or savings plans to consider. The Pension Fund is currently in surplus and has net assets of £9bn and therefore has sufficient resources to fund the expenditure of the Authority.

The Authority has a detailed risk management process. This includes a Risk Framework and a RAG rating system is used. The Authority maintains a risk register which is regularly reviewed and challenged by the Authority's Audit Committee and the South Yorkshire Local Pension Board. The only red rated risk is the 'impact of climate change on the value of the Fund's investment assets and its liabilities'. The Authority has a climate change policy in place and is considering alternative investment approaches as part of the investment strategy review.

The Authority reports the corporate performance on a quarterly basis, which includes a review of the financial position and an analysis of the actual expenditure incurred compared to budget. This allows the Authority to identify any changes in demand throughout the year.

VfM arrangements: Governance

Approach and considerations

We have considered how the Authority ensures that it makes informed decisions and properly manages its risks, including:

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the body approaches and carries out its annual budget setting process;
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

Commentary

As set out on the previous page, the Authority has a detailed risk management process in place. The Authority maintains a Risk Management Framework and risk register which are reviewed on a quarterly basis by the Authority. The risks identified are allocated to an owner to implement the mitigating actions. Due to the Covid-19 pandemic, the risk register was reviewed and risks identified relating to the pandemic were added to the risk register.

The Authority has a series of policies covering internal controls, including a whistleblowing and anti-fraud policy. These policies are readily available for all staff to review on the Authority's website.

The Authority engaged Hymans Robertson in July 2020 to perform an assessment of where they stand in relation to their legal requirements in respect of the LGPS, as well as the expectations of The Pensions Regulator and the themes emerging from the LGPS Scheme Advisory Board's Good Governance project. The overall conclusion was that 'the Authority is extremely well run and that its governance framework is excellent'.

The report made five recommendations:

- consider adopting a funding objective;
- consider reviewing the LGPS employer discretion policy to include all areas over which it has discretion;
- Review the arrangements whereby the roles of clerk, Monitoring Officer and s37 Officer are filled to ensure access to the expert advice and support;
- Amend the Local Pension Board Constitution to require that a member of the Board may not also be an observer at meetings or sub-committees of the Authority; and
- The Learning and Development Policy be extended to cover all those who attend Pension Committee and Board.

VfM arrangements: Governance - continued

Commentary

The annual budget setting is conducted as part of the annual planning exercise for which the Head of Finance and Director have executive responsibility. National and local guidance is assessed and used to form the basis of a number of assumptions in the plan. Current year performance is evaluated with notable variances explained to determine any ongoing impact. The budget seeks to explain year on year movements and any pressures are identified. There is a clear process in place to set the annual budget and this is approved by the Board and Audit Committee.

The Authority produces a quarterly corporate performance report which includes a review of the actual outturn position against the budget, and details any significant variances. This is reported to the Authority quarterly, which ensures there is sufficient oversight of the budget monitoring process. The report also includes non financial information and reports on how the Authority is achieving against its corporate plans.

The Authority has a number of policies in place to ensure it makes properly informed decisions which are detailed within the Authority's Constitution. The Authority has an approved decision methodology for investment and divestment decisions, which includes approval by finance personnel, and other key factors. Where necessary, decisions will be reviewed by the executive management team for comment and to determine if the proposal should be approved. Business cases with supporting information are submitted to the relevant committee for approval. This allows for challenge and transparency before decisions are approved.

The Authority has a number of staff policies in place including a code of conduct. These are all contained within the Constitution and are readily available for all staff to access. Declarations of interest are maintained for all senior members of staff and decision making officers.

VfM arrangements: Improving economy, efficiency and effectiveness

Approach and considerations

We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the Authority evaluates the services it provides to assess performance and identify areas for improvement;
- How the Authority ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- Where the Authority commissions or procures services, how the Authority ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the Authority assesses whether it is realising the expected benefits.

Commentary

The Authority assesses its performance through quarterly Corporate Performance Reports which consider a number of measures including corporate, investment, pension administration and financial metrics. There is also quarterly reporting on the performance of the Pension Fund investments. These reports are presented to the Audit Committee.

The Authority engage CEM Benchmarking on an ad hoc basis to perform benchmarking reviews in areas such as pensions administration and investments. CEM Benchmarking performed an investments review for the six years up to March 2020. This showed the investments were performing ahead of the LGPS median with regards to the net total return. The report also placed the six year performance in the positive value added, low cost quadrant of the cost effectiveness chart.

The most significant partnership that the Authority is part of is the Border to Coast Pensions Partnership ('BCPP'). The Authority is both an investor in products and an owner in the company. BCPP currently manages 63.5% of the Pension Fund assets. BCPP provide monthly and quarterly reports to the Authority outlining their performance and compliance with mandates agreed with the Authority. These are reviewed by the Director.

BCPP have an annual internal controls review undertaken by KPMG who have produced an Independent Service Auditor's Assurance Report on Investment Management Control System for the period 1 January 2020 to 31 December 2020. This report is qualified due to a lack of documentation regarding the approval and monitoring of access rights to the system. We do not deem this to be a risk to value for money as there have been no issues identified through the monthly and annual monitoring of the BCPP investments.

VfM arrangements: Improving economy, efficiency and effectiveness - continued

Commentary

The Authority performs an annual review of BCPP. They have an annual review meeting involving the BCPP portfolio managers, senior management and the Authority's investment advisory panel and produce an annual review report. This covers the investment performance and the delivery of the partnership against the principles and the Authority's objectives. The annual report review includes a number of recommendations to ensure the partnership continues to provide the Authority with the expected benefits. The key recommendations were:

- The Authority and Company should work together to provide a quantitative analysis of the value added for SYPFA by the pooling process;
- The Authority should seek to agree quarterly investor calls for each internally managed funds so that officers from all investors can gain greater understanding of the factors driving the positioning of the portfolios; and
- The Authority should keep under continual review the lot sizes being achieved within the Alternative portfolios and if at the next annual review the lot size is not achieving the targeted level, the Authority will seek proposals from the Company to address this.

The Authority has plans in place to address each of the recommendations to ensure that the best value is gained from the pooling partnership.

Appendices

Purpose of our report and responsibility statement

What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that brings together all of our work over the year, including our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Authority's arrangements.

What we don't report

Our audit was not designed to identify all matters that may be relevant to the Authority.

Also, there will be further information the Pensions Authority need to discharge their governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report is made solely for the Pensions Authority and Pension Fund, as a body, in accordance with the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in our Auditor's Annual Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed

Deloitte LLP

Newcastle upon Tyne |15 September 2021

Appendix 1: Authority’s responsibilities

Public bodies spending taxpayers’ money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Treasurer as Accounting Officer of the Authority, is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Accounting Officer is required to comply with the CIPFA code of practice and prepare the financial statements on a going concern basis, unless the Authority is informed of the intention for dissolution without transfer of services or function to another entity. In applying the going concern basis of accounting, the Accounting Officer has applied the ‘continuing provision of services’ approach set out in the CIPFA code of practice as it is anticipated that the services the Authority provides will continue into the future.

The Accounting Officer is required to confirm that the Statement of Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for patients, regulators and stakeholders to assess the Authority’s performance, business model and strategy.

The Accounting Officer is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Authority’s resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Authority, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounting Officer and the Board are responsible for ensuring proper stewardship and governance, and reviewing regularly the adequacy and effectiveness of these arrangements.

Appendix 2: Auditor's responsibilities

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities relating to the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under the Code of Audit Practice and the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
We are not required to consider, nor have we considered, whether all aspects of the foundation Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General in April 2021, as to whether the Authority has proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Authority a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021. Other findings from our work, including our commentary on the Authority's arrangements, are reported in our Auditor's Annual Report.

Auditor's other responsibilities

We are also required to report to you if we exercise any of our additional reporting powers under the Local Audit and Accountability Act 2014 to:

- make a written recommendation to the Authority, copied to the Secretary of State;
- make a referral to the Secretary of State if we believe that the Authority or an officer of the Authority is:
    - about to make, or has made, a decision which involves or would involve the Authority incurring unlawful expenditure; or
    - about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency; and
- consider whether to issue a report in the public interest.

Deloitte.

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