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Oakwell House
2 Beevor Court
Pontefract Road
Barnsley
S71 1HG

www.sypensions.org.uk

NOTICE OF AUTHORITY MEETING

You are hereby summoned to a meeting of the South Yorkshire Pensions Authority to be held at Oakwell House, 2 Beevor Court, Pontefract Road, Barnsley, S71 1HG on Thursday, 9 June 2022 at 1.30 pm 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 666412
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Distribution

Councillors: J Mounsey (Chair), R Bowser, S Clement-Jones, S Cox, B Curran, A Dimond, D Fisher, M Havard, D Nevett, A Sangar, M Stowe and G Weatherall.

Contact Details

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SOUTH YORKSHIRE PENSIONS AUTHORITY

THURSDAY, 9 JUNE 2022 AT 1.30 PM - OAKWELL HOUSE, 2 BEEVOR COURT, PONTEFRACT ROAD, BARNSLEY, S71 1HG

Agenda: Reports attached unless stated otherwise

	Item	Pages
	Business Matters	
1.	Appointment of Chair for the Ensuing Year	
2.	Appointment of Vice-Chair for the Ensuing Year	
3.	Apologies	
4.	Declarations of Interest	
5.	Announcements	
6.	Urgent Items To determine whether there are any additional items of business which by reason of special circumstances the Chair is of the opinion should be considered at the meeting; the reason(s) for such urgency to be stated.	
7.	Items to be considered in the absence of the public and press To identify where resolutions may be moved to exclude the public and press. (For items marked * the public and press may be excluded from the meeting.)	
8.	Membership, Political Balance and Appointments to Committees	5 - 10
9.	Section 41 Feedback from District Councils	Verbal Report
10.	Minutes of the meeting held on 17 March 2022	11 - 20
	Corporate Matters	
11.	Q4 Corporate Performance Report	21 - 52
	Investment Matters	
12.	Advisor's Market Commentary	53 - 64
13.	Q4 Investment Performance	65 - 82
14.	Q4 Responsible Investment Update	83 - 108
	Pensions Administration and Policy Matters	

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Membership, Political Balance, and Appointments to Committees**	**Status**	For Publication
Report to	Authority	**Date**	9th June 2022
Report of	Clerk		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Gill Richards Governance Officer	**Phone**	01226 666412
E Mail	grichards@sypa.org.uk		

1 Purpose of the Report

1.1 To approve appointments to the Authority's Committee's for the 2021/22 Municipal Year in line with the political balance rules applying to the Authority.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the members appointed to the Authority by the District Councils.**

b. **Note the members appointed to answer questions in the meetings of the District Councils' Full Council.**

c. **Provide nominations to serve on the two Committees**

d. **Approve the terms of reference for the proposed Impact Investment Working Group set out in Appendix A and provide nominations to serve on the Working Group**

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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 relate to risks around legal compliance contained in the Corporate Risk Register.

5 Background and Options

Membership

5.1 The following Councillors have been appointed to the Authority by each of the District Councils for the 2022/23 Municipal Year.

Barnsley MBC 2 Members	**Doncaster MBC 3 Members**	**Rotherham MBC 2 Members**	**Sheffield CC 5 Members**	**Non-Voting Co-opted Members 3 Members**
R Bowser	S Cox	D Fisher	S Clement-Jones	N Doolan (Unison)
M Stowe	J Mounsey	M Havard	B Curran	D Patterson (Unite)
	D Nevitt		A Dimond	G Warwick (GMB)
			A Sangar	
			G Weatherall	

5.2 The following members have been designated by the District Councils as the s41 Members whose role is to answer questions about the work of the Authority in meetings of the relevant full Council.

	Barnsley MBC	**Doncaster MBC**	**Rotherham MBC**	**Sheffield CC**
S 41 Member	M Stowe	D Nevitt	M Havard	G Weatherall

Political Balance and Appointment of Committees of the Authority

5.3 While, in distinction to the District Councils, a system of political groups does not operate within the Pensions Authority, it is made up of elected councillors appointed in line with the relevant political balance rules and the Authority must also follow those rules in appointing to any committees which it chooses to create.

5.4 The Authority's Constitution provides for two Committees.

- Audit Committee – This is chaired by the Vice Chair. The terms of reference mirror those of Audit committee's generally including responsibilities for the approval of the accounts, receiving reports from internal and external auditors, dealing with the risk management framework and related issues. The Committee meets 3 times per municipal year.
- The Staffing Appointments and Appeals Committee – This is chaired by the Chair and has comprised largely of s41 members together with a proportionate number of non-Labour Councillors. The terms of reference cover dealing with significant staffing changes (affecting more than 5 FTE), other staffing policy issues which require member consideration, the appointment of the Director and other officers and of the independent investment advisers and various appeals functions. The Committee meets on an ad-hoc basis but given known business two meetings have been scheduled this year.

5.5 At its last meeting the Authority endorsed the principle of creating a member working group with a particular focus on supporting the development of the plan which the Authority will, in due course be required to prepare in relation to investment directed to support the “levelling up” agenda. A proposed set of terms of reference for such a working group is set out at Appendix A. In line with the other Committees, it is proposed to set the membership of this Working Group should be set at 6 members as membership at this level will work more easily with the overall political balance of the Authority. The Non-Voting co-opted members of the Authority will be invited to attend the Working Group and participate in its debates but will not formally be members of the Group.

5.6 The table below provides the current balance of membership of the Authority following the appointments after the 2022 local elections, reflecting the political balance across South Yorkshire.

	Con	Green	Ind	Lab	Lib Dem	Total
Barnsley				2		2
Doncaster	1			2		3
Rotherham	1			1		2
Sheffield		1		2	2	5
Total	2	1	0	7	2	12
% of Total - Authority	16.7%	8.3%	0.0%	58.3%	16.7%	100.0%

5.7 This leads to the allocation of seats on Committees and Working Groups shown below:

	Con	Green	Ind	Lab	Lib Dem	Total
Committees						
Audit	1			4	1	6
Staffing Etc	1			4	1	6
Impact Investment Working Group	1	1		3	1	6
Total	3	1		11	3	18
Total Seats	5	2	0	18	5	30
% of Total Seats	16.7%	6.7%	0.0%	60.0%	16.7%	100.0%

5.8 The above represents the closest approximation to exact political balance possible given the number of seats available and aims to ensure that all strands of opinion within the Authority are represented on the Impact Investment Working Group. This is likely to be beneficial given the more developmental focus of the Group.

5.9 Members are invited to make nominations for the Committees and Working Group at this meeting.

6 <u>Implications</u>

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

Financial	None – the members allowance scheme caters for committee membership within the calculated allowances
Human Resources	None
ICT	None
Legal	Maintaining political balance in appointments to committees is a legal requirement.
Procurement	None

Sarah Norman

Clerk

Background Papers	
Document	**Place of Inspection**

SOUTH YORKSHIRE PENSIONS AUTHORITY

Impact Investment Working Group – Terms of Reference

Objective

The core objective of the working group is to provide guidance to officers on the priorities to be addressed in terms of focuses for impact within any plan included in the investment strategy to address the emerging requirements for a “levelling up” plan.

Work Programme

The Working Group is likely to meet on 4 occasions up to December 2022 with meetings themed as follows:

Meeting 1 – Familiarisation with Impact Investing

Meeting 2 – The “levelling up” agenda and investment and finding ways to maximise SYPA’s impact

Meeting 3 – How to invest in “levelling up”

Meeting 4- Priorities and a “levelling up” plan

External speakers will be asked to present at some of the meetings in order to provide a wider perspective and add to the input available from officers.

The aim is to arrive at a plan that can either form part of or sit alongside the Investment Strategy Statement for approval at the March 2023 meeting of the Authority.

Meetings

Meetings will be scheduled for 2 hours and will be undertaken in a hybrid format. As this is a Working Group these will not be public meetings, although papers will be circulated and minutes taken.

Membership

6 members on a politically proportional basis appointed at the Annual Meeting of the Authority.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

17 MARCH 2022

PRESENT: Councillor J Mounsey (Chair)

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

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

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), G Graham (Director), M McCarthy (Deputy Clerk), G Richards (Governance Officer), S Smith (Head of Investments Strategy), G Taberner (Head of Finance and Corporate Services) and W Goddard (Financial Services Manager)

M Lyon (Border to Coast Pensions Partnership Ltd)

D Green

Apologies for absence were received from Councillor M Stowe

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

The Director announced that this was Martin McCarthy's last Authority meeting as he was leaving BMBC at the end of May.

Martin had worked for the Authority since it was created in 1988 and before that for South Yorkshire County Council. From a personal level the Director commented that Martin had been an enormous support of his role and that the of the Pensions teams. He had provided wise counsel over many years and it was only right that Martin's service to the Authority was properly recognised.

The Chair commented that he had known Martin for 22 years, formerly as a member of the Fire and Rescue Authority, and held him in great respect for all his knowledge and assistance. He was proud to present Martin with a token for all work for the Authority over the years.

M McCarthy thanked Members and officers for the gift, stating that it had been an honour and a privilege to work for the Authority. He wished SYPA all the best for the future.

3 URGENT ITEMS

None.

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

RESOLVED – That item 16, Debt Write-Offs and item 17, Director's Appraisal, be considered in the absence of the public and press.

It was stated that item 17 would only be considered by voting members, the Director and the Deputy Clerk.

5 DECLARATIONS OF INTEREST

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

There were no specific issues from the s41 members but they again thanked the Director for supplying replies to numerous emails that councillors had received regarding climate change and investment issues.

7 MINUTES OF THE MEETING HELD ON 10 FEBRUARY 2022

RESOLVED – That the minutes of the meeting held on 10th February 2022 be agreed as a true record.

8 CORPORATE PERFORMANCE REPORT Q3 2021/22

G Taberner presented the Corporate Performance Report for Quarter 3 2021/22.

Highlights for the Quarter were noted as:

- Reduction in sickness levels.
- Fund value at a record £10.8 billion.
- Improvements in pension administration performance measures.
- Delays occurring on a small number of corporate objectives.
- Underspends forecast against the budget – particularly staffing budgets due to 9% vacancy rate.

Section 3 of the report provided information on the progress being made on delivering the various strategies which formed the corporate planning framework. A table provided updates in respect of developments during the quarter in delivering the programmes of work as well as updates in respect of activity that had taken place to deliver the ICT, HR and Equality strategies.

The key performance indicators for Pensions Administration were presented within the report. It was noted that performance on priority cases had returned to previous levels as long-term sickness absence had reduced. A more detailed report on performance of Pensions Administration was provided for each meeting of the Local Pension Board.

Members noted the quarter 3 financial performance and forecast outturn. The forecast underspend for the year was £182k at quarter 3; the majority of this related to employee costs. Detailed variances against budget for each of the service areas were contained within the report.

Members were reminded that the Authority had three earmarked reserves, The Corporate Strategy reserve, the ICT reserve and the Capital projects reserve.

A table within the report showed details of planned transfers from the reserves in 2021/22 which resulted in a total of £1,404k being transferred during the current financial year.

As there continued to be a need to ensure the balance of reserves was kept to an adequate level to meet resourcing requirements for specific corporate strategy objectives and for managing risk, it was proposed to transfer the remaining forecast underspend for 2021/22 into the reserves.

The report gave details and the rationale behind the proposal to recruit 1.0 FTE Senior Finance Officer. The cost of adding this post would be £35k per annum. At the budget had already been set for 2022/23, this would be finance in the first year by using some of the carried forward on the 2021/22 salaries budget. From 2023/24 the cost would be included I the budget.

The Risk Register, was attached at Appendix A. Further details and full commentary regarding the review of all the risks in February was provided.

In answer to a question form Cllr Nevett, J Bailey confirmed that a project team had been set up as planned with the aim of clearing backlog cases and he would be able to produce statistics at the next meeting to give assurance that the backlog was decreasing.

Members discussed the risk around adequate member training and development. The results from the recent self-assessment would be used to develop a comprehensive training programme over the next 12 months, including actuarial training during the valuation year. Members were invited to inform officers of any specific training requirements they may have.

Members also discussed the risk around climate change and that the likelihood that it would remain red for the foreseeable future. It was noted that the Authority's goal to reach net Zero by 2030 was extremely challenging. There were ways of making the goal more achievable but these could challenge some of the Authority's long-held beliefs. These would be discussed during the next 12-15 months whilst reviewing the Authority's' Investment Strategy.

RESOLVED – That members:

i) Approve the transfers to and from earmarked reserves as set out in the table in paragraph 4.53; currently forecast to amount to a net total transfer from reserves of £1,185,160.

ii) Approve the addition of 1.0 FTE Senior Finance Officer to the staffing establishment in Finance & Corporate Services.

9 <u>ADVISORS COMMENTARY</u>

A Devitt gave a market commentary on recent events.

- There was sharp stock market volatility early in the year which had not yet subsided.
- There were inflation concerns globally, with levels not seen in decades.
- Interest rates were raised, with two back-to back rises by the Bank of England and up to five rises being forecast in the US during 2022.
- Gilt yields fell sharply in February suggesting that the rise of inflation (and interest rates) may be short-lived.
- Stock markets had been disappointing year to date, with the UK FTSE being a notable exception.
- Markets remained on a geo-political knife-edge with scandal round the Beijing winter Olympics while Russia's invasion of Ukraine in February sparked unprecedented economic sanctions – the situation had worsened sins the report was written.
- Supply chain issues and labour shortages were persisting.

Members discussed geo-political risks, the likelihood of further Covid related lockdowns, local investments as required in the levelling-up agenda, a renewed focus on governance and renewable energy as a way of reducing reliance on Russia.

L Robb introduced a note of caution regarding the situation even when the events in Ukraine were resolved. There was a risk of shortages, wage pressures and there could be a phase of persistent high inflation which could be challenging for markets.

The Chair thanked A Devitt for an interesting and informative update.

10 QUARTERLY REPORT TO 31 DECEMBER 2021

S Smith presented the quarterly Investment Performance report to 31st December 2021.

It was noted that the value of the Fund at 31st December 2021 was £10.8bn.

Since the conflict in the Ukraine which affected all valuations and stock markets, the value at its lowest point was £10.3m and was currently £10.4bn.

During the quarter there had been several significant asset allocation decisions.

As equity markets continued to be strong, £9.9m was raised from the legacy holdings and these were used to fund the drawdowns into the alternative funds.

The largest transaction in the quarter was the transition of high yield and emerging market bonds to the new Border to Coast Multi Asset Credit fund in October. Cash proceeds of £47.5m was also added to take SYPAs weighting towards a neutral weighting.

Within property four sale transaction were completed during the quarter. These were detailed within the report and had been reported earlier in the 2021 Strategic Plan.

As reported last quarter, there was a significant drawdown of £105m into infrastructure funds which had taken the weighting within the permitted ranges for the asset class. There was only one category outside of its tactical range which was private equity.

It was noted that for the quarter to the end of December 2021, the Fund returned 4.1% against the expected benchmark return of 3.7% and for the year to date the Fund had now returned 10.7% against an expected return of 9.3%.

The report contained details of the performance of Border to Coast funds and a chart showed quarterly returns and also the longer term position of each of the Border to Coast Funds held by SYPA.

Regarding the Net Zero target, SYPA would consider a range of alternative investments approaches to enable the management of risks and opportunities related to climate change.

SYPA already had exposure to a range of low carbon investments through its existing strategy in areas such as infrastructure and private equity, and would look at increasing these further in the forthcoming strategy review.

Members were informed that Border to Coast were currently exploring the possibility of launching a Climate Opportunities which SYPA was supportive of. All of this portfolio would be climate and carbon aware supporting SYPA's commitment to decarbonise and would help meet the net zero target. Full details were contained within the report – SYPA's commitment would be £245m.

S Smith commented that the outlook was positive at the moment due to the diversity of asset allocation within the Fund. The Fund at its worst point only fell by 4½%, another positive was that the Fund held assets that benefitted from inflation.

The Federal Bank had raised interest rates and announced six further rises but also stated that they did not think that this would impinge the growth of the US economy. China had also stated that they would ensure that there was stability in their capital markets.

The Chair thanked S Smith for the update.

M Lyon gave a presentation on the performance of SYPA's assets and future opportunities within Border to Coast Pensions Partnership.

Areas covered included:

- Valuation and Commitment
- UK Listed Equity Fund
- Overseas Developed Markets Fund
- Emerging Markets Equity
- Multi-Asset Credit
- Sterling Investment Grade Credit
- Sterling Index Linked Bonds
- Climate Opportunities

M Lyon explained the positioning of and logic behind Border to Coast's Russian investments where they were underweight credit and overweight equities, although overall they were slightly underweight.

The current position was that the assets had zero value and couldn't be traded. The situation would be continually monitored and a decision on future exposure to Russia would be made in the future when there was more clarity and taking into account Partner Funds' views.

Regarding the proposed Climate Opportunities fund:

- Deliver 8% target investment return through income and capital growth.
- Invest in opportunities focused on reducing carbon emissions and support the transition to a low carbon economy.
- Managers must clearly demonstrate and report carbon/transition impact.
- Avoid "greenwashing" through assessment of manager and funds alignment with net zero and a lower carbon economy.

Members discussed the improvement of the levels of disclosure, greenwashing, divestment and engagement and the understanding of the pathway to net zero.

The Chair thanked M Lyon for a very informative presentation.

11 <u>SYPA RESPONSIBLE INVESTMENT POLICIES - ANNUAL REVIEW</u>

A report was presented for members' approval of the annual review of the Authority's own policies in relation to responsible investment.

The Responsible Investment Policy, at Appendix A to the report, generally remained unchanged but there had been some development of its presentation to include the Authority's responsible Investment beliefs which had been agreed last year and also amendments to ensure that some of the emphasis from the Stewardship Code on priority setting and focus was properly reflected within the policy.

The proposed revised Climate Change Policy (at Appendix B) was focused on bringing the policy in line with the Net Zero Goal and Action Plan. The Policy also reflected the intention of the government to make regulations to mandate reporting in line with the requirements of the Task Force on Climate Related Financial Disclosure.

RESOLVED – That Members approve the following update policy documents:

i) The Authority's Responsible Investment Policy (Appendix A).

ii) The Authority's Climate Change Policy (Appendix B).

12 <u>NET ZERO ACTION PLAN UPDATE</u>

A report was submitted which sought to secure agreement to the first annual update to the Net Zero Action Plan.

Members were reminded that the Authority had approved its first Net Zero Action Plan in March 2021 following the agreement in 2020 of a goal to make the investment portfolios Net Zero in terms of carbon emissions by 2030,

The updated Net Zero Action Plan set out in the Appendix reflected the progress that had been made in the last 12 months and set out the further steps required in this stage of the Authority's journey.

Members were informed that, while the last 12 months had seen significant progress on climate issues in a number of areas, including the setting of a Net Zero target by Border to Coast, the 2030 goal remained extremely challenging and there was a high risk that it would not be achieved.

The Fund Director commented that it was clear that the reduction of emissions from some of the core portfolios would have to be speeded up and there needed to be a discussion of what that meant in terms of the Authority's investment beliefs alongside the Investment Strategy review. There would be an informal session later in the year to develop policy and thinking in this area.

There were clear resource implications in terms of a significant input of officer time and the need for an external resource to meet the additional more prescriptive reporting requirements. Border to Coast had already secured a contract for data provision and it was hoped the Authority could piggyback on that.

The Action Plan also identified key risks; it was noted that additional risks had been identified since the report was written due to the situation in Ukraine and some countries plans to reduce their reliance on Russian fossil fuels which could prove unhelpful

Cllr Cox commented that it was important to remember that SYPA's main responsibility was to pay Scheme members' pensions.

Cllr Sangar welcomed the report and commended the progress made. He also expressed frustration that there was still a lack of data whilst acknowledging that travel was in the right direction.

RESOLVED – That Members approve the updated Net Zero Action Plan.

13 UNDERSTANDING THE IMPACT OF OUR INVESTMENTS

A report was submitted which allowed members to consider the Authority's first attempt to assess the impact of its investments and the Authority's review of its adoption of the Impacting Investment Principles of Pension Funds.

Members were reminded that they had agreed to undertake work to gain a more complete understanding of the impact of all of its investments on people and the planet using the UN Sustainable Development Goals as a framework for analysis.

This was a very significant piece of work and Minerva were commissioned using the LGPS National Framework for Stewardship to undertake it. The contract awarded was to produce reports over three years with an increasing amount of activity being undertaken in house each year.

Minerva's first report was attached as an Appendix to the report. A summary of the conclusions was noted as:

- Impact – The Authority's investments were impacting the achievement of Sustainable Development Goals (SDGs).
- Contributors – Some investments already positively helped towards the delivery of SDGs.
- Alignment – The potential existed to build SDG delivery actions into existing RI approach
- Data Gaps – Some managers (particularly for unlisted assets) did not provide data.
- Focused – Five sectors accounted for 2/3rds of the Authority's exposure to the SDGs.
- Detractors - Some investments also had the potential to negatively impact the SDGs.

It was noted that one of the member learning sessions in the next municipal year would be dedicated to the report and what could be learned from it as part of shaping future policy.

Members were reminded that in March 2021, the Authority agreed to adopt the Impact Investing Principles for Pension Funds. Appendix B set out a review of what had been done in complying with the principles and intentions for the future in relation to each of the principles.

RESOLVED – That Members:

i) Note the Authority's first Impact report.

ii) Note the review of the Authority's first year of adoption of the Impact Investing Principles for Pension Funds.

14 RESPONSIBLE INVESTMENT QUARTERLY UPDATE Q3 2021/22

Members considered the Responsible Investment Update for Quarter 3.

Highlights included:

- A continued high level of engagement activity.
- The agreement of the annual update to Border to Coast's voting guidelines.
- Equity portfolios continued to demonstrate strong ESG performance relative to benchmark.
- Progress towards Net Zero of the equity portfolios.
- A continued high level of collaborative and policy development activity.

RESOLVED – That the report be noted.

15 VALUATION 2022 - INITIAL ASSUMPTIONS AND DELIVERY PLAN

A report was submitted which sought to gain agreement to the initial assumptions to be used in the valuation process and to provide an update on the planned process for the valuation.

Members were reminded that the triennial valuation of the pension fund which would set employer contributions would take place this year and was based on the value of the fund’s assets and liabilities as at 31st March 2022.

The Director informed members that, whilst there remained significant uncertainty in financial markets, the valuation would be conducted from a more favourable starting point than in previous years. Therefore, it was appropriate to consider the Authority’s overall objective in the valuation process. Given the risk environment the Fund faced and the pressure on employers it was suggested that the overall objective should he framed as follows:

The objective of the Authority is to achieve medium to longer term stability in employer contribution rates taking into account the different starting points and membership profiles of individual employers.

G Graham introduced Douglas Green from Hymans Robertson who would be undertaking the valuation for the first time as the Fund’s actuary.

D Green gave a presentation which explained how the assumptions used worked when applied to members benefits, investment returns and employer contributions.

The Chair thanked D Green for an interesting and informative presentation.

RESOLVED – That members:

i) Approve the valuation assumptions set out in the body of the report.

ii) Note the plan for the valuation process.

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 paragraphs 1 and 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 DEBT WRITE-OFFS

A report was submitted which requested the Authority’s approval to write off irrecoverable debts relating to the Pension Fund’s commercial property portfolio and Pension Member overpayments.

RESOLVED – That Members approve the writing off of the debts detailed within the report.

17 DIRECTOR'S APPRAISAL

A report was submitted which allowed members to consider the annual appraisal of the Director's performance.

RESOLVED: That members:

i) Note the review of the Director's performance over the year.

ii) Approve the objectives for the coming year set out in the body of the report.

CHAIR

Delivering for our Customers – Corporate Performance Report

Quarter 4 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 final 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.

Recommendations

1.4 The financial measures set out within Section 4 of the report include details regarding the outturn for 2021/22 and proposed use of reserves to finance the planned projects that have taken place during the year as well as the proposed transfers from the remaining under-spend for the year into reserves to be used in future. The Authority's approval for these transfers is required and Members are recommended to:

a) Approve the other transfers to and from earmarked reserves as set out in the table in paragraph 4.64; amounting to a net total transfer from reserves of £1,067,410.

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.

+	–
Majority of corporate objectives have been delivered or remain on target.	A small number of corporate objectives not delivered and have had to be deferred.
Fund value at year end £10.7 billion and esitmated funding level of 109%.	Continued high level of vacancies during 2021/22 contributing to large budget under-spend. However, progress on recruitment now being seen from end of Quarter 4.
Improvements in pension administration performance measures.	

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 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 4	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	Completed. A new five-year contract was signed in February 2022 with an improvement plan incorporated into the contract and commitments to resolve some long-standing issues in relation to monthly data collection and handling of aggregations in particular by September 2022.	✓
[MS2] Implement regulatory changes arising from the McCloud and Goodwin judgements and the GMP rectification process.	Oct-20	Mar-23	Draft legislation is still awaited in relation to the McCloud remedy, and it is now expected the implementation of the remedy will now extend to October 2023	✓
[MS3] Clear residual backlog cases.	Feb-20	Jul-21	The project team set up primarily to assist in clearing the backlog of aggregation cases was created in January but was initially focused on clearing some data issues ahead of the 2022 Pensions Increase. Now this has been completed, work on settling aggregations has commenced but is likely to extend until the end of the year. 1,350 cases were completed in this quarter, leaving 3,847 outstanding. Future reports will show the trend analysis to provide improved visibility.	⇔
[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	Extensive contributions modelling was carried out ahead of the 2022 valuation with future contribution rates provisionally discussed and agreed with all four Councils, Police, Fire and Combined Mayoral Authorities as well as the largest FE and HE bodies.	✓

Corporate Plan Deliverables 2021/22 to 2023/24	Start	Finish	Progress Update / Activity Quarter 4	On Target
[MS5] Provide additional support to staff to maximise their effectiveness > Providing opportunities for staff at the top of the career grade to develop their skills through secondment opportunities and participation in project work. > Create an easily accessible and updated single knowledge base for pension administrators based on the existing portal which has not been kept up to date. > Implement a structured development programme for Pension Officers reaching to top of the career grade	Mar-20 Apr-20 Feb-20	Ongoing Mar-22 May21	The revised career grade scheme for Pensions Officers was completed earlier in the year and some staff continue to achieve accelerated progression as a result of the increased flexibilities.	✓
[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	Seven training sessions delivered for employers this quarter as well as the first full day Employer Forum for over two years which was held virtually and featured a range of presentations from internal and external speakers.	✓
[CS2] Actively promote take up of online services utilising all available routes, including introducing measurement of effectiveness as well as pure volume.	Apr-20	Ongoing	Total members registered online reached 70,000 this quarter and the retire online facility was also introduced for deferred members.	✓
[IS1] Implement the revised Investment Strategy; including the transition of assets to new Border to Coast products and recommendations in relation to the future of the agricultural portfolio.	Mar-20	Mar-23	Transition of listed alternative holdings successfully implemented this quarter. The implementation of the Investment Strategy introduced from April 2020 is mostly complete.	✓
[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 (SDGs)	Apr-20 Feb-20	Mar-22 Mar-23	Following the FRC's assessment, they now require additional information from that provided in the last annual report. This will be taken forward in the next financial year.	⇔

Corporate Plan Deliverables 2021/22 to 2023/24	Start	Finish	Progress Update / Activity Quarter 4	On Target
[IS3] Implement the action plan for achieving Net Zero by 2030	Mar-21	Annual reviews to 2030	The update to the Net Zero Action Plan was reported and agreed in March 2022 and work has continued to identify investments that positively support the transition and result in reduced emissions. However, given the early target date, there remains a significant risk of missing the goal. The specification for the review of the Investment Strategy reflects the need to accelerate emissions reduction.	⇔
[IS4] Make changes to the investment performance reporting process to make the process less labour intensive and to produce sharper, more focussed reporting.	Jan-20	Mar-22	The reports have been updated but will continue to evolve.	✓
[CO1] Replace the Authority's Business Systems covering:				
> Financials (including removal of cheque acceptance)	Dec-20	Oct-21	Completed. The new Advanced Cloud Financials software went live on 20 December 2021.	✓
> People Systems (HR, Staff Payroll, Time & Attendance)	Jan-21	Dec-21	As a result of having to devote time and resource to the other business systems replacements as well as the office accommodation project, a decision was taken to defer this project to 2022/23.	✗
> Committee Administration (Modern.gov)	Mar-21	Sep-21	Completed. The new instance of Modern.gov was implemented successfully and all meetings content migrated.	✓
[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	A briefing session was undertaken with Managers and Team Leaders in relation to the importance and links between induction, probation, one-to-ones and appraisals with an emphasis on open, regular and transparent conversations. This session also looked at the importance of recording individual training and development needs corporately so that efficiencies and value for money could be achieved where appropriate to do so.	✓

Corporate Plan Deliverables 2021/22 to 2023/24	Start	Finish	Progress Update / Activity Quarter 4	On Target
[CO2] > Introduce revised induction process and e-Learning approaches to support annual and refresher training programmes.	Feb-20	Mar-22	The majority of the induction process has now been put online on the *LinkedIn Learning* platform ready for testing and further refinement. Mandatory and refresher training will also be linked to this platform and management reporting will be available in terms of completion rates etc.	⇔
[CO2] > Create a structured programme to support the development of management and supervisory skills.	Sep-21	Mar-22	The Leadership and Management programme for all Team Managers and Team Leaders continued during this quarter, due to conclude in the next quarter but with a plan to continue one element of the programme – 'Action Learning Sets' involving group coaching-style sessions for managers to discuss current issues. The target in next year's plan is to commission a development programme suitable for senior practitioner grade staff.	✓
[CO3] Implement the recommendations arising from the Hymans Robertson review of governance that was conducted in light of the Good Governance review.	Apr-20	Mar-22	Completed as reported previously.	✓
[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	Completed as reported previously.	✓
[CO5] Replace website infrastructure to create a single web presence that better supports the organisation's communication and engagement strategies.	Jan-20	Sep-21	Completed. The launch of the new corporate website took place in January 2022. This includes a new, fully integrated site for Authority meetings, agendas and minutes.	✓
[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	Implemented the *Acronis 365* backup solution for data stored in the M365 cloud. All users' mailboxes migrated to MS Exchange online.	✓

Corporate Plan Deliverables 2021/22 to 2023/24	Start	Finish	Progress Update / Activity Quarter 4	On Target
[CO7] Introduce Agile Working approach across the whole organisation supported by a funded programme of hardware replacement.	Jan-20	Mar-23	All staff commenced work in the new office on an agile (hybrid) basis this quarter.	✓
[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	Replacement of telephony with VOIP system completed. Potential integration with MS Teams is being investigated as a potential future development but not business critical.	✓
[CO9] Incorporate within the Communications Strategy appropriate structured approaches to internal communication and external communication focussed on the wider local government and pension communities, as well as the conventional stakeholder groups such as scheme members and employers.	Apr-21	Jan-22	Changes in the Communications Strategy will be led by the new Communications Officer post for which recruitment has been deferred until Q1 of 2022/23. In the meantime, a number of internal focus groups have been held between SMT and staff groups across the organisation to capture and action feedback on improving internal communications.	✘

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	Activity this quarter centred on the migration of the ICT infrastructure from Gateway Plaza to Oakwell House and ensuring staff could continue to work uninterrupted by the transition.
Using technology to support a step change in the way customers access our services	The new Deferred Retire online facility was made available to scheme members via the *MyPension* website and allows deferred members the opportunity to claim their pension fully online with no form filling. To date, 350 members have made use of the facility.
Using technology to deliver efficient business processes	Online self-servicing was introduced for employers in relation to requesting accounting disclosures for 31 March year-ends. Online self-servicing also introduced for the Fund in terms of setting contribution rates for new employers joining.
Keeping data safe and secure	Implementation of an Access Control System at Oakwell House to promote physical security for the building.

Human Resources Strategy	Activity this Quarter
Developing the Current Workforce to meet the Needs of the Organisation.	The *LinkedIn Learning* platform continues to be promoted as a means of developing the current workforce. Usage during Quarter 4 saw the highest number of employees using the resources available.
Recruiting a Workforce for the future.	The Recruitment and Selection policy has been updated and approved this quarter. This allows for a more streamlined process to recruitment with robust governance arrangements in place and we have started using more innovative approaches to advertising roles.
Retaining a high-quality workforce.	Work has commenced on researching different ways in which to reward and recognise employees in order to produce a policy that looks more widely at non-monetary rewards and initiatives.

Equality and Diversity Strategy	Activity this Quarter
Making our services more accessible to disabled customers.	Oakwell House opened with full disability access. Engagement Team carried out home visits to support three members with additional needs to ensure they were able to claim their benefit entitlements.
Decision making processes informed by a robust and clear impact assessment process	This has not been progressed due to other pressures and priorities and has been carried forward into the updated Equality and Diversity Scheme for 2022 to 2025.
A diverse workforce that reflects the customers we serve	Progress has been made in terms of widening the reach of the recruitment process, as well as reviewing the recruitment and selection policy, and providing some training for those involved in recruitment with further training to be held. Efforts will continue in this area.
Workforce culture, environment, policies and practices that are safe accessible and inclusive for people from all protected characteristics	The ongoing process of policy review, particularly for HR policies, has reflected these issues and ongoing organisational development work is focussed on achieving a positive culture, although elements of this work have been somewhat delayed by the pandemic.
To reduce any pay gaps where statistically possible	There is little significant progress here although recent recruitment will have some positive impact in the 2023 report. Small changes in gender balance at particular grades can have a significant impact on results due to the relatively small numbers involved.

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 for the 2021/22 year is as follows.

Measure	Performance				
	Quarter 4 2021/22	Quarter 4 2021/22	Full Year 2021/22	Prior Year: 2020/21	Movement Year on Year
Short Term Sickness Absence – Days Lost per FTE	0.90	0.94	3.10	1.00	
Long Term Sickness Absence – Days Lost per FTE	1.22	0.47	4.82	2.60	
Total Days Lost per FTE	**2.12**	**1.41**	**7.92**	**3.60**	

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, there has been an increase in days lost compared to the previous quarter, primarily comprising an increase in long-term sickness absence. The total for the year 2021/22 is significantly higher than the previous year, although it should be noted that the total for that year was extremely low compared to the average levels seen in preceding years.

4.5 Sickness absence is actively monitored under the Authority's managing attendance policy, and data on the application of this policy is reported quarterly to SMT. Occupational health services are provided by Barnsley MBC and referrals for this service are made as appropriate for individuals, for example, providing assessment reports to advise managers in supporting return to work following long-term absence, and access to additional resources such as counselling for employees. The usage of these services is also monitored and reported quarterly to SMT.

4.6 The Authority's Health, Safety and Wellbeing Committee continue to promote a range of initiatives to help support staff with their wellbeing.

Investment Measures

4.7 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 4 2021/22	Quarterly Benchmark	Performance Full Year 2021/22	2021/22 Benchmark	2021/22 Actuarial Target	RAG Indicator
Investment Return – Whole Fund	-1.00%	-1.50%	9.60%	7.70%	8.25%	

4.8 Outperformance over the quarter was due to relative outperformance in the bond portfolios and also to uplift in valuations across all the alternative asset classes. This was also true of the full year performance.

4.9 The total Fund value at 31 March was £10.7 billion and the estimated funding level at the end of the quarter was 109% calculated on a roll-forward basis from the 2019 valuation data.

4.10 At the end of the quarter, 70.0% of the Fund's assets were being managed in pooled structures provided by Border to Coast. Transition of listed alternative holdings to the new Border to Coast Listed Alternatives fund took place at the end of January 2022.

Pension Administration Measures

4.12 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 4 2021/22	Quarter 3 2021/22	Full Year 2021/22	Previous Year: 2020/21	Target 2021/22	Movement Year on Year
Proportion of priority cases processed on time	88%	86%	85%	78%	100%	
Proportion of non-priority cases processed on time	73%	74%	73%	73%	100%	
Proportion of all cases processed on time	75%	75%	74%	73%	100%	
Proportion of employer data submissions on time	99%	99%	99%	99%	100%	

4.13 Performance on high priority cases continues to improve incrementally and was not adversely affected by the creation of the Projects Team.

4.14 There was a slight reduction in performance on non-priority cases in the quarter, but the new projects team have now started working primarily on non-priority casework, so the performance here is expected to improve.

4.15 Employers continue to submit monthly returns in a timely manner in the main, though the current performance measure does not measure data accuracy. This will start to be measured and reported from Q1 of 2022/23.

4.16 At the end of the quarter, membership of the Fund stood at 171,108.

4.17 Seven new employers were admitted, and six terminations completed during the quarter.

4.18 There were 548 participating employers with active members at 31 March 2022.

Financial Measures

2021/22 Quarter 4 Outturn

4.19 The quarter 4 performance and 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 Provisional Outturn £	2021/22 Provisional Outturn Variance £	2021/22 Provisional Outturn Variance %
Pensions Administration	2,376,700	2,719,750	2,500,610	(219,140)	(8.10%)
Investment Strategy	631,420	539,760	565,090	25,330	4.70%
Finance & Corporate Services	685,190	738,220	772,420	34,200	4.60%
ICT	560,960	667,200	635,850	(31,350)	(4.70%)
Management & Corporate	430,000	375,050	368,090	(6,960)	(1.90%)
Democratic Representation	118,180	142,620	124,020	(18,600)	(13.00%)
Subtotal - Cost of Services	**4,802,450**	**5,182,600**	**4,966,080**	**(216,520)**	**(4.20%)**
Capital Expenditure	42,600	1,630,000	1,546,930	(83,070)	(5.10%)
Subtotal before transfers to reserves	**4,845,050**	**6,812,600**	**6,513,010**	**(299,590)**	**(4.40%)**
Appropriations to / (from) Reserves	600,550	(1,367,000)	(1,067,410)	299,590	(21.90%)
Total	**5,445,600**	**5,445,600**	**5,445,600**	**0**	**0.00%**

4.20 The provisional outturn for the year before transfers from reserves is an under-spend of (£299k); which is larger than the under-spend forecast in the previous quarter. The increase is primarily due to the programmed capital expenditure, where a small over-spend was forecast last time based on the available information but the outturn is now an under-spend of (£83k). Further details are provided below.

4.21 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 a number of posts were vacant during the year; on average around 10% of the total budgeted establishment of 97.1 FTE.

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

4.23 Pensions Administration – Total Under-spend (£219k):

4.24 There is a total under-spend on the employee costs budget of (£133k), which is as per the quarter 3 forecast. As previously reported, this includes (£35k) relating to the budget for a training officer role that was advertised internally on a secondment basis but was not taken up. Following year-end, this role has since been revised to a permanent Technical Specialist role, which has been filled. The remaining balance of the total forecast under-spend on employee costs is due to staff turnover and vacancies across the service area. Following recruitment in Q3, 2 FTE pensions officers commenced in post during Q4, and further recruitment for customer services officers and a customer services apprentice also took place during the quarter.

4.25 There is a planned over-spend in employee costs of £12k relating to a provision for a retention incentive payment funded by a transfer from the corporate strategy reserve.

4.26 The training budget is forecast to be under-spent by (£12k).

4.27 The budget for office accommodation costs, apportioned to services pro-rata to staffing numbers, is over-spent by £58k. This is due to a range of issues including the fact that the unavoidable delay in being able to transfer the data centre from Gateway Plaza until January 2022 meant that rent, business rates, utilities etc. were all charged for an additional two months (Dec and Jan) that hadn't been included in the budget. In addition, the costs of electricity have been higher than expected as a result of the wider inflation on energy prices. Finally, the costs of the facilities management provision required in the first few months of mobilisation were higher than forecast. This will stabilise now as the transition period comes to an end.

4.28 The budget for hybrid mail, other printing, postage and stationery is under-spent by (£16k) reflecting the continued progress in moving towards paperless working.

4.29 There is an under-spend of (£59k) on actuarial fees for the year. This is partly due to the fact that a prudent approach was taken to setting the budget for 2021/22 based on experience of actual costs in previous years and pending the outcome of procurement for a new contract. The change of contract that resulted from the procurement has resulted in savings being realised.

4.30 The budget included an amount for benchmarking to include undertaking the CEM benchmarking exercise on pensions administration that did not go ahead, this has resulted in this budget being under-spent by (£16k).

4.31 Other professional services, including legal fees, consultancy, and corporate subscriptions are under-spent by a total of (£16k) for this year.

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

4.33 Income from fees and charges is (£13k) more than budget. This includes income from member fees for sharing orders for example, and employer fees in relation to administrative charges.

4.34 Additional funding of (£6k) was received from the Education and Skills Funding Agency (ESFA) for apprenticeships during the year. This will be set aside in reserves to be used towards learning and development.

4.35 Investment Strategy – Total Over-spend £25k:

4.36 The employee costs budget includes a planned over-spend of £12k relating to a provision for a retention incentive payment funded by a transfer from the corporate strategy reserve.

4.37 The budgets for property management advice, performance measurement, independent investment advisers, and other professional services are over-spent by £17k in total for the year – reflecting an increase in expenses following return to in-person meetings and travel requirements, additional work completed on impact investment reporting for which the cost was slightly higher than budget, but this will be met from reserves, and an increase in the contractual fee for agricultural property advice.

4.38 There is a small under-spend of (£4k) on the remaining areas of the investment strategy budget.

4.39 Finance and Corporate Services – Total Over-spend £34k:

4.40 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.

4.41 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.

4.42 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.

4.43 There are savings of (£43k) anticipated as a result of staff turnover / vacancies for the year – these have been used to fund additional costs of £14k 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.

4.44 The service's over-spend on office accommodation (explained in para 4.27 above) is £21k.

4.45 ICT – Total Under-spend (£31k):

4.46 The main contribution to the under-spend on ICT is additional income received over that budgeted for. Income from software sales and maintenance fees was (£38k) more than budget which will be transferred into the ICT Development earmarked reserve for re-investment in future ICT projects.

4.47 The over-spend from ICT's share of office accommodation costs (explained in para 4.27 above) is £7k.

4.48 Management & Corporate Costs – Total Under-spend (£7k):

4.49 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 has been under-spent this year by (£23k). 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 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.

4.50 Various incidental costs relating to the move to the new office have been incurred (such as mail redirection, small items of equipment purchased, risk assessment services etc.) amounting to £21k in total.

4.51 The external audit budget includes a forecast net over-spend of £4k 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.

4.52 The internal audit budget is (£9k) under-spent for the year; the expenditure is based on actual days delivered during the year and due to adjustments to timing of some of the planned reviews, this was under the budgeted total but will be carried forward for completion in 2022/23 instead.

4.53 <u>Democratic Representation – Total Under-spend (£19k):</u>

4.54 The budgets for Authority and Local Pension Board (LPB) running costs are forecast to be under-spent by (£14k) in total due to the fall in expenditure for room hire, catering, travel, subsistence, mainly arising from the knock-on effects of COVID-19.

4.55 The training budget is also under-spent this year, by (£4k) for Authority members and by (£1k) for LPB.

4.56 <u>Capital Expenditure – Total Under-spend (£83k)</u>

4.57 The total capital budget for this year was £1,630k, comprising £225k for new pension administration system 5-year contract and £1,405k for the Oakwell House office project.

4.58 The actual implementation cost of the new pensions administration software contract that commenced in February 2022 was £185k, resulting in a (£40k) under-spend against the budget for this project.

4.59 The remaining balance of capital expenditure is £1,362k for the Oakwell House project, which is (£43k) under the budgeted 2021/22 spend – which is due to slippage in timing only, on the final stage of AV installation works that were held up as a result of global supply chain delays – this work and therefore the associated expenditure will be carried out during the first quarter of the next financial year.

Oakwell House Refurbishment Project	Budgeted Cost £000	2021/22 Outturn £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	5	(12)	(70.6%)
Main Contract Sum	1,054	1,107	53	5.0%
PV Panels	16	30	14	87.5%
AV Fit Out	120	104	(16)	(13.3%)
Other Estimated Costs - including: Dilapidations Payment Gateway Plaza, Removals, ICT Installation etc.	60	2	(58)	(96.7%)
Contingency	20	0	(20)	(100.0%)
Total Project Cost	**1,405**	**1,362**	**(43)**	**(3.1%)**

4.60 Earmarked Reserves

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

4.62 The table at paragraph 4.64 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. This results in a total of £1,405k being transferred from reserves for this financial year.

4.63 As outlined in the detail above, there are some specific areas of under-spend – including the capital budget and the areas of additional income for apprenticeships and for ICT, that are required to be transferred into reserves for use in the forthcoming year. Additionally, 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 remaining forecast under-spend for 2021/22 into the reserves, in addition to the originally budgeted transfers into reserves, as set out in the following table. This results in a total of £338k being transferred into reserves for the year.

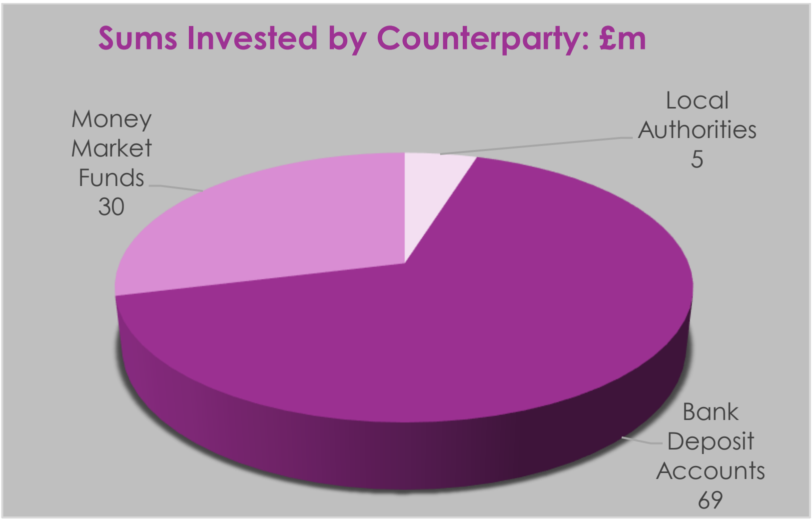
4.64 The result of the above is a net total transfer from reserves of £1,067,410.

Reserves	Balance at 01/04/2021 £	Transfers In £	Transfers Out £	Balance at 31/03/2022 £
Corporate Strategy Reserve	238,500	145,000	(184,700)	198,800
ICT Reserve	118,300	87,650	0	205,950
Subtotal: Revenue Reserves	**356,800**	**232,650**	**(184,700)**	**404,750**
Capital Projects Reserve	1,254,470	105,110	(1,220,470)	139,110
Total Reserves	**1,611,270**	**337,760**	**(1,405,170)**	**543,860**
	Net Total Transfer:	**(1,067,410)**		

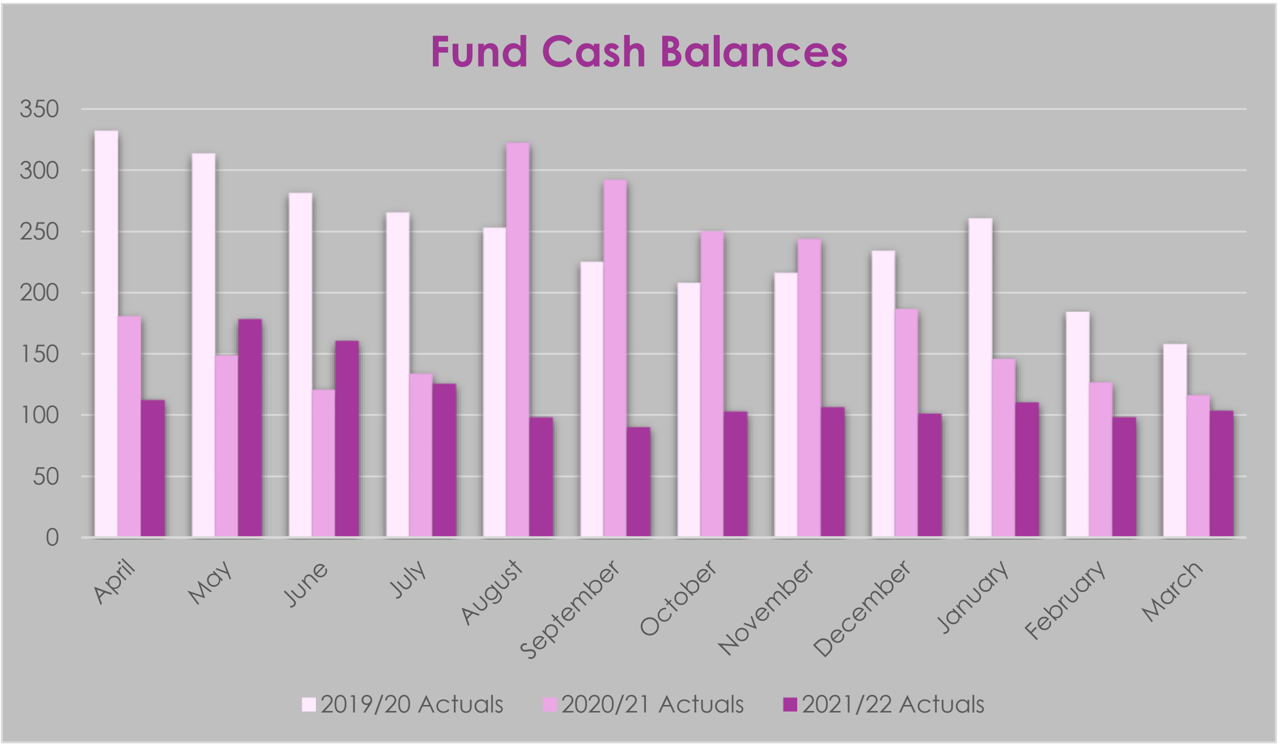
4.65 The balance of the revenue reserves following the transfers proposed for the year, is £405k in total which equates to 7.4% of the Authority's total revenue budget.

Treasury Management

4.66 The Fund's cash balances at 31 March 2022 stood at £104m. The chart below shows how the balances have been invested with different counterparties in line with the approved treasury management strategy for the year.



4.67 The following chart shows the movement in cash balances held for the last three financial years.



4.68 Cash is only held pending Fund investment and the balance of cash at the end of the year represents 0.98% of the Fund, compared with 0.94% at 31 December 2021. The cash allocation remains well within the permitted range of 0% to 10% and is below the benchmark of 1.5% at 31 March 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. A full review was undertaken in May 2022, and this resulted in three risk scores being reduced as highlighted on the register attached.

5.3 Further details and full commentary is provided 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 Q4 2021/22	Received in Q3 2021/22	Received Full Year 2021/22	Received in Previous Year: Full Year 2020/21
Complaints	5	6	24	17
Appeals Stage 1	0	0	4	8
Appeals Stage 2	1	1	4	8

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

6.3 Of the 5 complaints received during the quarter, 4 were outside of SYPA direct control as they were a result of either delays from third party providers, regulatory requirements or actions not taken by the member.

6.4 The one complaint potentially within SYPA control was from a member who maintained they had posted in original certificates, but these had not been traced. Members are strongly discouraged from sending in original certificates for exactly this reason. We have offered to reimburse the member for the costs of a replacement certificate if required. Longer term, we are interested in ways of using other electronic forms of ID verification though our initial research suggests this is still a market in the early stages of development for the pensions sector.

Breaches of Law and Regulation

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

6.6 There were three breaches recorded in the quarter, these were discussed at the latest Local Pension Board meeting in April. One was an individual data breach where a monthly return data query had been sent to the wrong employer - the data had been deleted.

6.7 The second breach was from Prudential Assurance who reported that they had failed to meet the statutory deadline for production of 2020-21 AVC statements. This breach had been reported to the Pensions Regulator.

6.8 The third breach was the late production of Pension Savings Statements for 2020-21 by SYPA which was caused primarily by some resourcing issues in an individual team. The Local Pension Board were presented with details of the action plan produced to ensure this breach would not be repeated for 2021-22 and future years and were satisfied that appropriate actions were being taken to address the issue.

Satisfaction Surveys

6.9 A customer centre survey found that 91% of the 396 respondents were satisfied with the service they received.

6.10 A survey of members retiring showed that of the 102 respondents, 95% were satisfied with the service they received. Five members were dissatisfied with the handling of their retirement. Of those that left comments, two members were impacted by delays with the settling of their Prudential AVC fund (see references in the breaches report). One was unhappy with the ill-health retirement process, though this was primarily a result of actions by the employer. We continue to offer training to employers to assist in the handling of this sensitive area.

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South Yorkshire Pensions Authority Risk Register As At
20 May 2022

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

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Risks currently under particular focus are:

Risk No	Risk Type	Risk Title	Current Score	Risk Change at Review
G2	Governance	Failure of members of the Local Pension Board to maintain adequate levels of knowledge and understanding	9	
I3	Investment and Funding	Failure to manage the key risks identified in the Border to Coast Strategic Plan	9	

Appendix A

SOUTH YORKSHIRE PENSIONS AUTHORITY RISK REGISTER AS AT 20/05/2022

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 of members of the Authority to maintain adequate levels of knowledge and understanding	Poor decision making not supported by appropriate advice. Regulatory criticism/action Insufficient challenge being provided to officers	Corporate Manager - Governance	Member Learning and Development Strategy and associated mandatory requirements. Provision of on-line learning resources and knowledge assessment tools. Provision of internal seminars programme. Support for attendance at appropriate external events.	12	P=M I=H	6	P=L I=M	Additional support to complete knowledge assessments for all members. Examination of additional bite size learning options. Provide further internal seminars and examine options for more individualised "tuition". ***Comment 17/05/2022 :*** No change to risk score at this stage. This will be re-assessed in the light of finalised membership and comprehensive assessment of learning and development needs, to be completed during June 22.	Corporate Manager - Governance		17/05/2022
G2	Governance	Failure of members of the Local Pension Board to maintain adequate levels of knowledge and understanding	Poor decision making not supported by appropriate advice. Regulatory criticism/action. Insufficient challenge being provided to officers.	Corporate Manager - Governance	Member Learning and Development Strategy and associated mandatory requirements. Provision of on line learning resources and knowledge assessment tools. Provision of internal seminars programme. Support for attendance at appropriate external events. Additional support from the Board's Independent Adviser	9	P=M I=M	6	P=L I=M	Additional support to complete knowledge assessments for all members Examination of additional bite size learning options Provide further internal seminars and examine options for more individualised "tuition". ***Comment 17/05/2022:*** The Board has a stable membership and a sound level of knowledge and understanding based on the learning needs assessment that has been undertaken. In addition, it has been agreed to extend the contract of the current Independent Adviser which strengthens effectiveness of the Board, to the point where a further review may result in the target being reached. As a result the impact in relation to this risk has reduced from high to medium.	Corporate Manager - Governance	↓	17/05/2022
G3	Governance	Breakdown of the control environment	Exposure to the risk of loss due to fraud or error. Critical external audit reports leading to regulatory action.	Senior Management Team	Documented internal controls. Senior Management review of controls to provide assurance as part of the process for developing the Annual Governance Statement. Effective Internal Audit service to provide assurance to management in relation to the control framework. Ongoing replacement of aging systems which require manual controls with more modern systems which allow controls to be automated	8	P=L I=H	4	P=L I=L	Completion of system replacement and upgrade programmes. Extension of management assurance process to Team Managers. Adoption of Governance Assurance Framework suggested by Internal Audit ***Comment 17/05/2022:*** ***The current status and experience over the last year warrants a change to the assessed probability of this risk from Medium to Low, resulting in a reduced current score.***	Senior Management Team	↓	17/05/2022

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
G4	Governance	Weak or ineffective project management arrangements	Failure to deliver key projects included within the Corporate Strategy	Director	Some project management training delivered for key staff. Limited project management support.	**16**	P=H I=H	**6**	P=L I=M	Appoint to redefined role of Project / Programme Manager. Provide all managers responsible for leading and delivering projects with a standard toolkit to follow to ensure consistent planning and delivery. Institute a more formal and documented process of reporting on the progress of projects. ***Comment 17/05/2022:*** At this stage no change to the current score is justified. The recruitment process is in hand and it is anticipated that an appointment will be made shortly.	Director		17/05/2022
I1	Investment and Funding	Material changes to the value of investment assets and/or liabilities due to major market movements	Sharp and sudden movements in the overall funding level	Head of Investment Strategy	Investment Strategy focussed on relatively lower risk and less volatile investments. Element of inflation protection built into the asset allocation both through specific assets (such as index linked gilts) and proxies such as property and infrastructure.	**15**	P=M I=VH	**9**	P=M I=M	Ability to implement protection strategies if market circumstances indicate they are appropriate. ***Comment 17/05/2022:*** Given the current uncertainty in the market there is no justification for reducing the score.	Head of Investment Strategy		17/05/2022
I2	Investment and Funding	Failure to mitigate the impact of climate change on the value of the Fund's investment assets and liabilities	Significant deterioration in the funding level	Director	Climate Change Policies and Net Zero Goals adopted by both the Authority and Border to Coast. Asset allocation tilted to favour more climate positive investments. Reporting in line with the requirements of TCFD and regular monitoring of the level of emissions from portfolios, with outline targets for reductions. Work commenced to provide more comprehensive data on private market investments.	**20**	P=H I=VH	**12**	P=H I=M	Review of Investment Strategy following the 2022 Valuation to integrate the achievement of Net Zero within the Strategic Asset Allocation. Clear targets for emission reduction to be set for all portfolios. Additional engagement with Border to Coast to identify potentially climate positive investments. ***Comment 17/05/2022:*** At this stage there is no evidence to support a change in the score for this risk. However work on the review of the investment strategy will actively consider the delivery of our net zero goal as part of its work over the coming year. Work is also in hand to analyse end of year climate data to gain a more detailed understanding of the current emissions trajectory.	Director		17/05/2022
I3	Investment and Funding	Failure to manage the key risks identified in the Border to Coast Strategic Plan	Decline in investment performance. Increased costs as a result of the need to move to more expensive products. Potential changes in the risk and volatility levels within the portfolio	Director	Process of engagement between the Company and stakeholders to agree the Company's Strategic Plan and Budget containing appropriate mitigations. Succession and contingency planning arrangements in place within the Company	**9**	P=M I=M	**6**	P=L I=M	Agreement of a programme of specific risk mitigations as part of the 2022 - 2025 Strategic Plan and Budget ***Comment 17/05/2022:*** The Company's Strategic Plan, including spend to address key risks, was agreed in March and the new plan focuses in part on people risks and succession planning. Recent recruitment indicates some success in mitigating this risk, and in view of this the impact score has been reduced to medium.	Director	↓	17/05/2022

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
I4	Investment and Funding	Imbalance in cashflows	Inability to pay pensions without resorting to borrowing or "fire sale" liquidation of investments. Potential negative impacts on individual pensioners.	Head of Investment Strategy	Maintenance of "cash buffer" of liquidity sufficient to cover more than one monthly payroll. Process for monitoring and forecasting cashflows	10	P=L I=VH	5	P=VL I=VH	Further improvements in cashflow forecasting,. Implementation of strategies to more regularly harvest income from investments. ***Comment 17/05/2022:*** *At this stage there is no justification to reduce the score.*	Head of Investment Strategy		17/05/2022
I5	Investment and Funding	Affordability of contributions	Negative impact on employer financial viability. Default on the making of contributions by employers.	Director	Investment strategy focussed on less volatile investments. Focus in the valuation process on delivering longer term stability in contribution rates. Retention of elements of any surplus to manage the risks to contribution stability.	9	P=M I=M	6	P=M I=L	Adjustments to balance of the investment strategy between growth and protection according to market circumstances ***Comment 17/05/2022:*** The valuation process is likely to produce broadly the same outcome with overall affordability remain the same. At this stage there is no justification to reduce the score.	Director		17/05/2022
O1	Operational	Failure to maintain effective cyber defences	Significant disruption to the provision of services. Loss / unauthorised release of key data.	Corporate Manager - ICT & Digital	Regularly updated firewalls and other protections. Regular refresher training on cyber security for all staff with a requirement to achieve a minimum level of pass. Regular penetration testing.	16	P=H I=H	12	P=M I=H	Additional testing of disaster recovery arrangements ***Comment 17/05/2022:*** Working towards annual recertification of Cyber Security Essentials Plus accreditation, this will maintain the current accreditation rather than add to our current mitigations. In view of this there is no justification to reduce the score of this risk.	Corporate Manager - ICT & Digital		17/05/2022
O2	Operational	Impact of poor data quality on operational project delivery	Failure to deliver key projects such as McCloud rectification on time. Provision of inaccurate information to members such as Annual Benefit Statements. Inaccurate data impacting the valuation of liabilities during the triennial valuation.	Head of Pensions Administration	Ongoing data improvement plan. Projects Team put in place to resource specific exercises to address data improvement. Implementation of front end validation of employer data submissions.	12	P=M I=H	6	P=M I=L	Additional actuarial validation checks undertaken on an ongoing basis ***Comment 17/05/2022:*** The new projects team s in it's early days, initial indications are that it is having a positive effect but it is too early to measure this meaningfully. At this stage there is no justification for a reduction in the score.	Head of Pensions Administration		17/05/2022
O3	Operational	Data Protection and GDPR	Unauthorised release of personal data. Action by the Information Commissioner.	Head of Pensions Administration	Review process built into processes involving the release of information. Secure e-mail facility used where personal information involved. Mandatory staff training in relation to data protection issues repeated on a regular basis. Regular internal audit work to review and test controls.	12	P=M I=H	6	P=M I=L	Increase in the volume of member correspondence managed through the member portal **Comment 17/05/2022:** Following a recent Advisory audit, work is ongoing with Internal Audit and BMBC to review and develop further our suite of policies and procedures. In particular focusing on Information Sharing Agreements and Document Retention. A Gateway approval document has been drafted, which captures the need for Data Impact Assessments etc. as part of the procurement process. At this stage the is no justification for a reduction in the score, however a further review will take place when the above has been progressed.	Head of Pensions Administration		17/05/2022

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	Regulatory Compliance	Enforcement action by relevant regulatory authorities	Senior Management Team	Reporting of compliance with relevant standards. Ongoing process of awareness raising and training for staff in relation to operational matters such as TPR Scams requirements. Basic assessment of compliance with TPR CoP 14 in place.	**12**	P=M I=H	**8**	P=L I=H	More detailed assessment of compliance with emerging TPR Single Code and other regulatory requirements with associated action plan and enhanced regular reporting. Additional training for Authority and Pension Board Members to enable improved oversight. ***Comment 17/05/2022:*** There is no justification at this stage to reduce the score. However the potential of implementing an enhanced management system will be reviewed, further supporting the internal management reporting and early risk identification.	Corporate Manager - Governance		17/05/2022
P1	People	Ability to recruit and retain an appropriately skilled and qualified workforce	High level of vacancies	Director	Pay and benefits package with emphasis on employee wellbeing. Career grade scheme in place for Pensions Officers.	**12**	P=H I=M	**6**	P=M I=L	Review of pay and benefits package. Introduction of additional personal development opportunities. Introduction of a structured approach to succession planning. ***Comment 17/05/2022:*** It is intended to report the pay and benefit review to members in the Autumn. Steps have been taken to utilise different routes to recruit with some initial success in terms of widening the application pool. This pilot will reviewed later in the year to consider if it will be continued. At this stage there is no justification to reduce the score.	Director		17/05/2022

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Russian Roulette and Stable Geniuses

The year was already fraught with uncertainty and unease, but it was until the second quarter that the "wheels really started to come off" in markets and investor sentiment. As supply chain problems persisted, notably within the energy complex, price inflation proved stubborn and central banks moved to action – suddenly it seemed that investors had nowhere to hide.

While most stocks were generally weak (with the notable exception of energy producers), technology stocks, with their eccentric leaders, disruptive governance and breathtaking valuations provided a steady stream of drama (e.g. Elon Musk and his offer for Twitter, Tesla, Cathie Wood and the Ark chronicles), while digital assets, the upstarts at the fringe of some asset allocations, saw sharp volatility to the downside.

The conversation around interest rate hikes and slowing growth inevitably returns to talk of Stagflation, but, notably, it is only the Bank of England that seems to dare speak the name of "recession ahead". Rate hikes are now in full train globally, with moves by the US Federal Reserve, the Bank of England, and the central banks of South Korea, Canada and Australia – all in response to rising inflation, while a rise by the European Central Bank is broadly expected this summer. A shutdown in parts of China have savaged economic growth numbers there as sales numbers completely stall in the cities affected, and the ongoing war in Ukraine is playing out on the European stage as NATO membership applications grow and access to energy (namely natural gas) is used as a weapon.

Highlights since the last quarterly update:

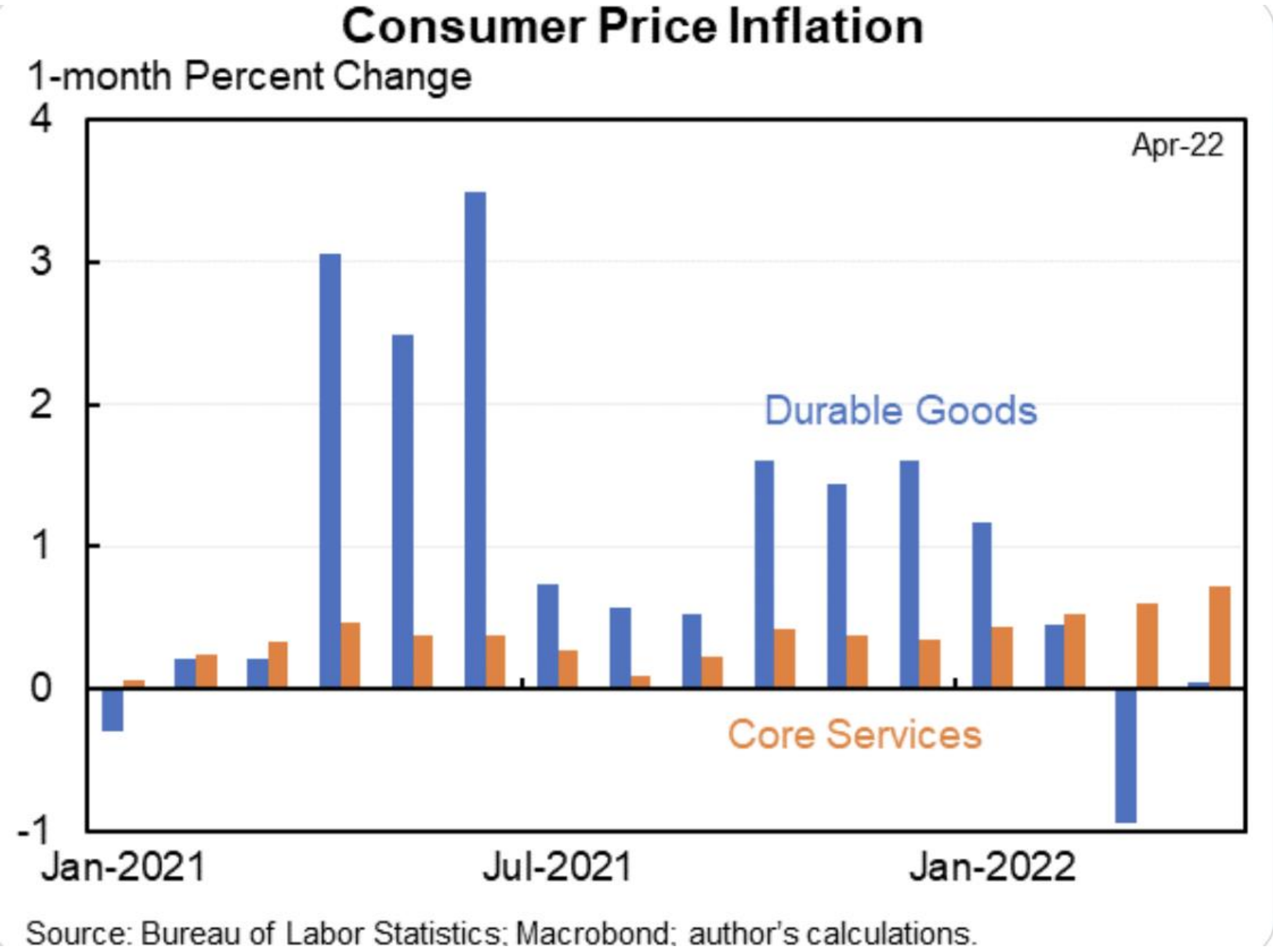
- **Inflation remains the core focus of central banks worldwide, and it appears that taming it and possibly stemming economic growth in the process is the priority. The Bank of England continued its streak of rate rises to bring its number to four, and UK rates now sit at 1%**
- **Fixed income had one of its worst starts to the year since recordkeeping began, with sharp falls in investment grade and high yield issues, as spread widening accompanied a climb in government bond rates, indicating broad expectations of further rate rises.**
- **Employment numbers remain positive, but GDP numbers are strained due to supply chain problems and a slowdown in exports as the global economy sputters.**
- **The de-globalization rallying cry remains a strong one – with some commentators expecting this to lead to more inflation, more local supply chains and ultimately more protectionism.**
- **The pressure on energy users remains severe and this has dialled up the pressure to locate alternative sources, avoid collapse (in the case of factories such as fertilizer factories highly dependent on energy as an input) and this is feeding through into food and commodity prices.**
- **Markets have experienced severe volatility globally and have touched technical bear markets and "corrections" with quite indiscriminate selling. This did turn more positive before trending more positively as the end of May approached.**

***

Current Macro Snapshot

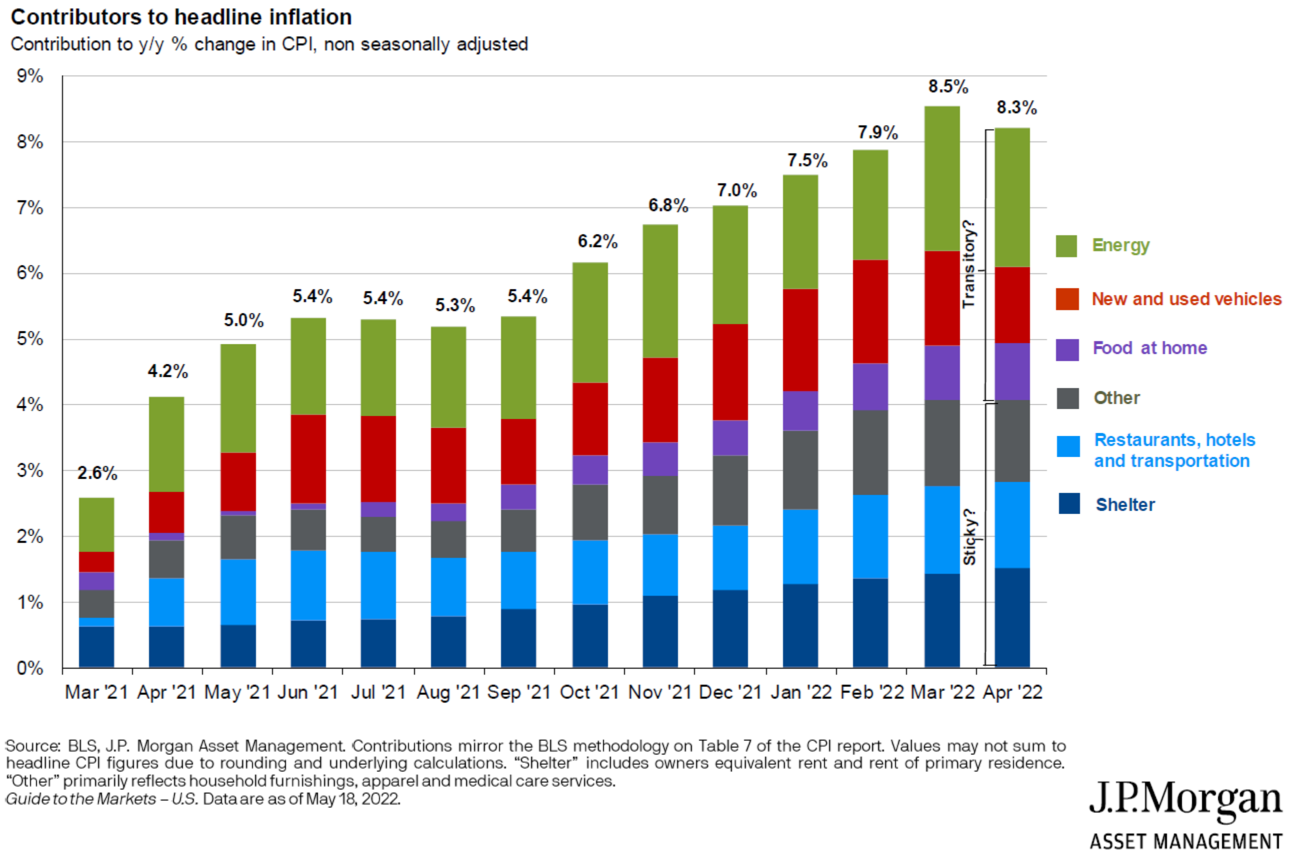
Inflation and Interest Rate – "The Ayes have it"

Inflation and interest rates (the two "Is") have been a recurring theme all year and remain at the forefront of macro concerns. Over the course of the quarter numbers hit 6.3% year on year in the US, remaining close to a 40 year high but slightly down on the previous month as goods prices fell although service pricing remained high in the face of strong demand.



In the UK monthly figures hit 9% in April, another 40-year high, due to "spiraling" food and energy prices in what was dubbed an "apocalyptic" environment for consumers.

Globally central banks have shifted from the "inflation is transitory" stance to one of growing concern, and much focus is now on what aspects of inflation are "sticky" – such as higher energy prices. As this interesting chart from JP Morgan shows, it is challenging to divide the components into what might be sticky or transitory, but they suggest that shelter and services are likely to be more persistent.

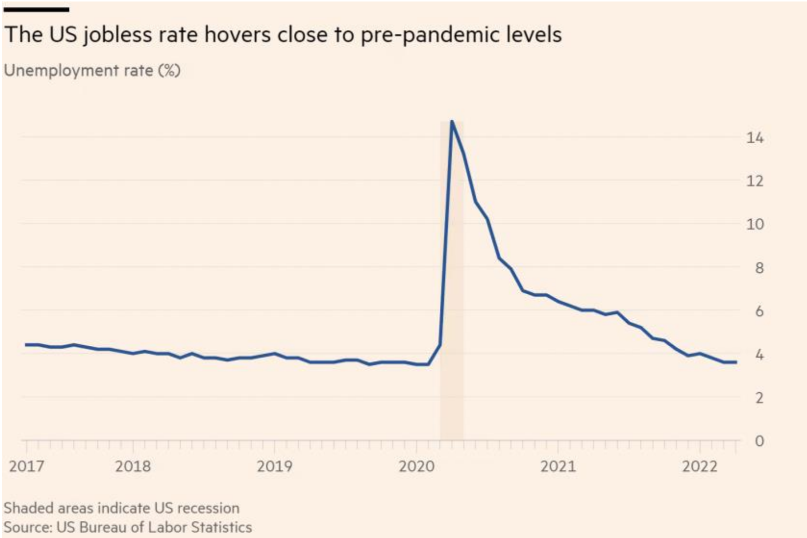


The other key "I" is interest rates, and currently a reasonably smooth upwards interest rate trajectory seems to be priced in by markets – with US bond investors expecting two consecutive 50 bps rate rises in June and July. Such has been the telegraphing of these rate rises that markets react in relief when the rise is "only" 50 bps, and not 75 bps, and when there is evident consensus in the decision making body, and not more aggressive, or hawkish, voice in the mix.

Only the European Central Bank has been sluggish in raising its rates, although the first rate rise in a decade is expected in June or July of this year. Their reluctance might be explained by the sagging growth numbers across the area as shown below:

Meanwhile in the UK (as shown below in the separate section) there are also signs of weakness.

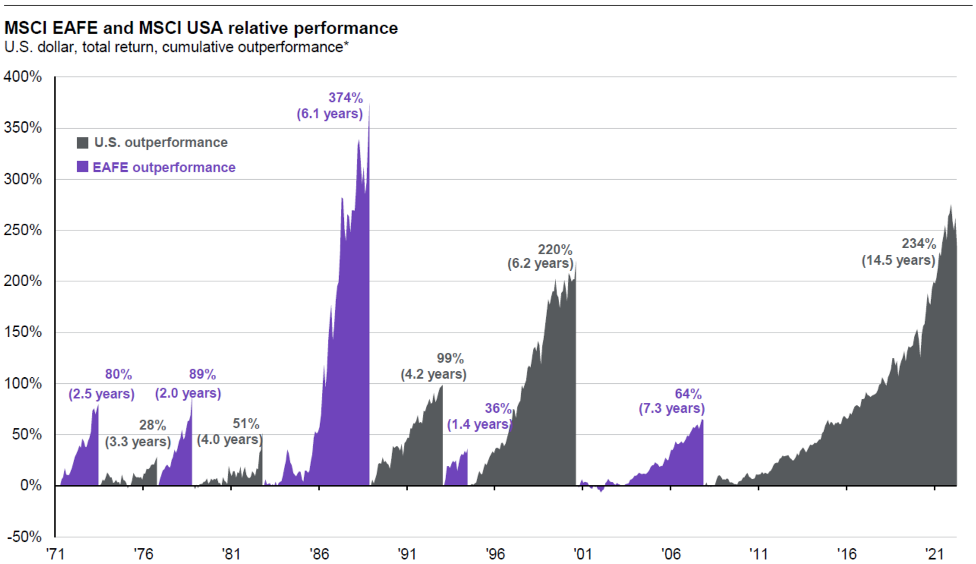
The only resilient bright spot in the current economic outlook is employment, and as the chart below shows and as numbers have repeatedly supported, the employment picture is generally strong. This chart is from the US, but the same skills shortage and low unemployment rate is a feature globally.



Commodity prices continue to drive higher, sparked by the contagion effect of energy, and this is seen as both underpinning inflation as well as threatening earnings and margins at companies.

Fiddling While Rome Burns?

As the equity performance chart below shows Europe's performance has been sluggish as its dependence on energy from Russia and its proximity to the Russia/Ukraine conflict has stymied growth projections and created more uncertainty. It is clear that US performance has strongly outpaced non-US markets now for well over a decade (see chart below), but surely from looking like a chart like this it would suggest that some form of a course correction is possible?



Brexit Update and UK economy

The outlook for the UK economy remains subdued as indicators such as that below show a reduction in consumer confidence and purchasing manager behaviour.

While discussions around Brexit continue, particularly as it relates to the Northern Ireland protocol, there are small wins on the trade side, such as signing deals with individual US states (e.g. Indiana). The focus has now shifted to the wellbeing of the overall economy as it emerges from Covid restrictions and we have discussed this above.

Individual Asset Class Performance.

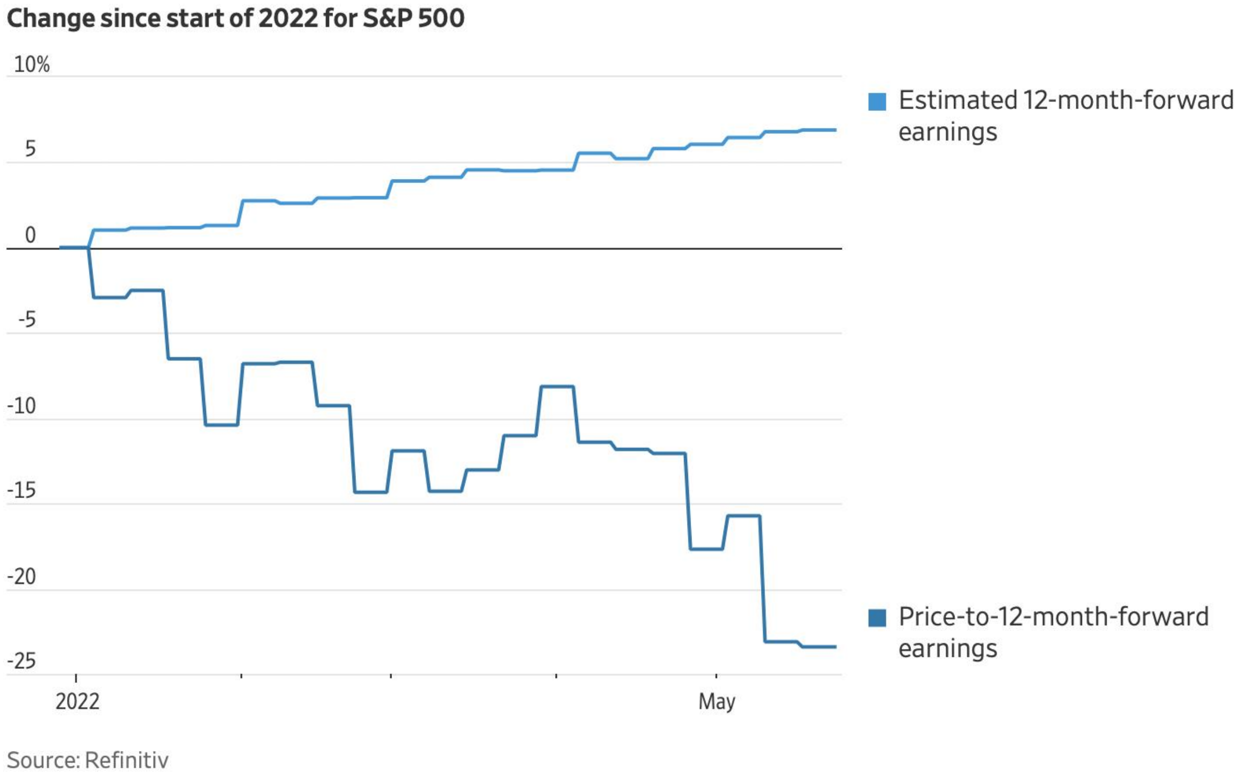
- Equities
- Fixed income
- Other asset classes

Equities: A pattern of volatility becomes the norm

Equity Index	**Year to date (May 30)**	**1 year**
FTSE 100	2.7%	7.99%
S&P 500	-12.13%	-0.46%
Nasdaq	-22.46%	-11.77%
Dax (Europe)	-8.49%	-5.74%
Hang Seng	-9.72%	-27.54%
Shanghai Comp	-13.48%	-12.9%

Equity market performance was particularly poor over the past quarter, although interestingly, whether due to the weak Sterling or the "old economy" nature of many of the FTSE stocks, the FTSE 100 bucked the trend by holding its own.

However, the monthly numbers, poor as they were, actually masked the volatility that was experienced intra-month. As the chart below shows, the correction in valuations – as expressed by P/E multiples has been swift, while earnings growth has actually been fairly steady, if unspectacular. This suggests that maybe markets have over-corrected and present good value today – it does not speak to massive valuation anomalies.



Fixed Income/Credit: One for the History Books

The most remarkable factor in the last quarter was the correlation of bond markets with equity markets and the fact that there was among the worst performance since records began for the year to date in this segment. The chart below shows the correlation between equity markets and bond markets year to date, and this double threat was particularly challenging for portfolios that may have resembled the traditional "balanced" style of 60% equity and 40% bonds. It is intriguing as to why bonds failed to provide their traditional "protection" function this cycle, although it may be due to the spectre of inflation, in which bonds typically provide poor protection, the unequivocal rising rate future – again – typically poor for bonds – and the likely end of the multi-decade bond bull market. It did underscore, though, why there was seemingly no place to hide this time around.

Finally, the sell-off in investment grade and high yield bonds raised the question as to whether any of it was justified in terms of likely default. The default rates during Covid famously came nowhere close to default rates hit during the financial crisis in 2008, and much debate centered on whether this was due to "extending, amending and pretending" by banks and credit institutions given the unprecedented "force majeure" which had intervened (Covid). Little would appear to have changed today, so it could well be that these sell-offs in bonds were overdone and unsupported by credit fundamentals. Time will tell, but certainly at the current levels returns look appealing in fixed income.

Other asset classes – Untethered and Luna-cy itself

Crypto currencies and other digital assets saw stark volatility in recent weeks, and while there are no such assets in the pension fund portfolio it is highly possible that digital "adjacent" assets – say those dependent on tokenisation or on the blockchain as infrastructure are creeping in at underlying portfolio company level in, say, private assets. What was remarkable about recent price action in these names is that it has sharped the discovery process as to how these assets behave. Many of the questions asked about digital assets are as follows:

Are they inflation resilient – maybe because they rise in line with inflation like equities? The answer to this would appear to be no, as the fears around inflation have caused a sell-off. On the other hand the assets that are traditionally inflation resilient like real estate, real assets and infrastructure have been supported. Gold, notably, has not done so well – perhaps as it was overlooked in favour of digital assets recently and it is only up 1% year to date.

Are they hedges in a portfolio? Do they hold their value when risk assets sell off? Again no, clearly they are more correlated with highly volatile tech stocks than with defensive stocks or assets, so they probably should be regarded to have the highest risk/reward profile of portfolio assets.

Are they so widely held now that we can trust their infrastructure and so-called backing? The answer to this would also be no – as the volatility in so called pegged coins such as Terra showed during the early month of main as well as the collapse of the Luna token. The complexity of these issues together with a poor understanding of the size and scope of the markets indicates that the infrastructure behind many digital assets is also still at thediscovery phase today.

Oil prices remained strong (up over 50% year to date), as did natural gas, supported in the near term by tensions between Russia and the Ukraine and potential uncertainty around gas prices.

Housing prices remain robust in the UK although the pace of the price rises are slowing

Private equity activity remains robust as does infrastructure and private debt investing – although see the Spotlight below for more insights on this.

Spotlight: Venture Capital and Private Market Valuations

Private equity activity has soared in recent years and venture capital in particular is seen as the key portal to innovative investment minds as well as eye-popping investment returns. In 2021 venture capital deal activity reached record highs, at more than $150 bn capital allocated per year, and life-sciences and bio-tech remain the main areas of interest.

As before, this is an area where volume of activity (deals) matters as the hit rate can be low and the outcomes binary. On average, seven out of ten portfolio companies will not return even the money invested and the majority of this capital will need to be written off. Of the remaining three portfolio companies (out of ten), two are expected to return enough to cover all the losses; the third to provide the 20 to 30 percent internal rate of return (IRR) investors anticipate at the overall portfolio level – which could be a 10x or 20x multiple for that particular investment.

As the demand for diversification has grown, many investors have taken comfort from the lower volatility and mark to market experience in their private markets portfolio as these investments tend to be marked quarterly, so do not experience the same intra-month volatility. However, private market valuations are based on public market comparisons (or multiples) and as multiples have adjusted it can only be expected that private market valuations will follow suit – albeit at a later stage. We might therefore expect that in the quarters to come we will see an adjustment in private market investments that reflects some of the movement we have seen in equity markets in the first half of the year.

Outlook

The year so far has sparked talk of "regime change" and a new paradigm. I have dropped the term "VUCA[1]" for this quarter's letter as the uncertainty piece seems to be slowly resolving – and with it volatility. As the certainty about rate rises, and their magnitude, comes into focus, market volatility has become more subdued, and the initial revulsion around equities at their previous valuations has passed. Even the spectre of another world war seems to have fizzled out for now, as the might of the Russian army seems to have reached its limit. While other geopolitical shocks are possible, in 2022 the Russian/Ukraine situation did indeed "suck all of the air out of the situation room" and possibly tied up the "shock budget" for 2022.

In coming months we will be watching in particular:

- **Inflation – and bringing it to heel.** As was stated last quarter, at some stage the "base effect" will start to work with the current inflation figures, although the current prints are still persistently high. It will be interesting to watch inflation expectations evolve and how that affects consumer behaviour – i.e. whether consumers buy now to avoid higher prices later, or start to shift down to lower price point items or consume less (otherwise known as "demand destruction") and how that factors into company margins and their ability to stay the course.

- **The consumer unleashed.** As the summer unfolds before us, will we witness what has been called a wave of "revenge tourism" – a backlash to the travel restrictions enforced by Covid and a spending on services with some pent-up demand? Will this be supported by the strong job market? As Covid-induced restrictions seem to be receding (at least outside China, but now, importantly, within China with a "release" in Shanghai expected June 1), perhaps we are now getting to see the true shape of the economy, without artificial crutches and guardrails

[1] Volatility, Uncertainty, Complexity and Ambiguity

- **Central Bank conviction.** As central banks around the world dig into their toolkit to counter inflation, it will be fascinating to see how the messaging and telegraphing of moves differs, how some banks are more or less willing to stoke market upset, where the true boundaries of central bank independence lie.

- **Political and currency moves.** The strong dollar has correlated with the outperformance of the US equity markets on the global stage as well as the slightly higher forecasts for economic growth there, due in part to the lack of reliance on Russia for energy. The pending US mid-terms could bring a change of the composition of the legislative branch which could portend deadlock in Washington DC, more uncertainty and fewer tools to control the economic outcome. This is likely to erode the leadership position of the US in terms of market performance and we could see both the Eurozone and the UK start to see currency strengthening and their economies take the baton.

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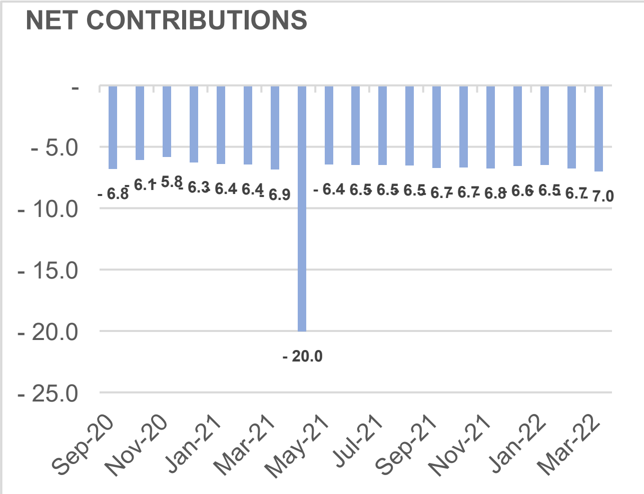
May 30, 2022

SOUTH YORKSHIRE PENSIONS AUTHORITY

QUARTERLY REPORT TO 31 MARCH 2022



NET CONTRIBUTIONS
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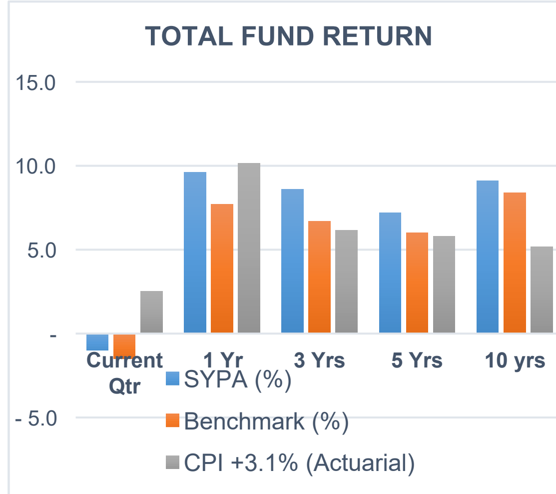
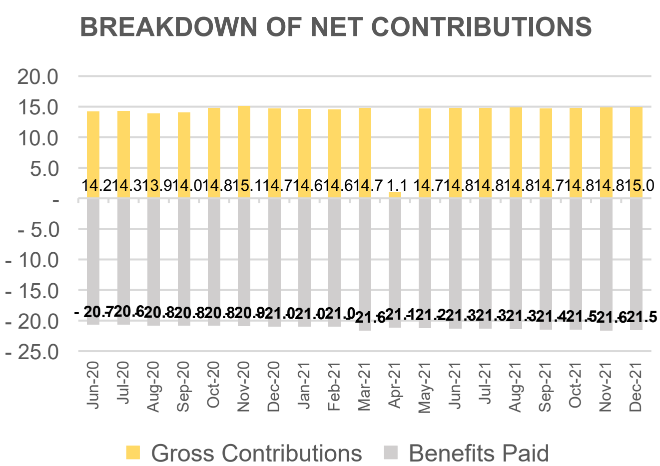
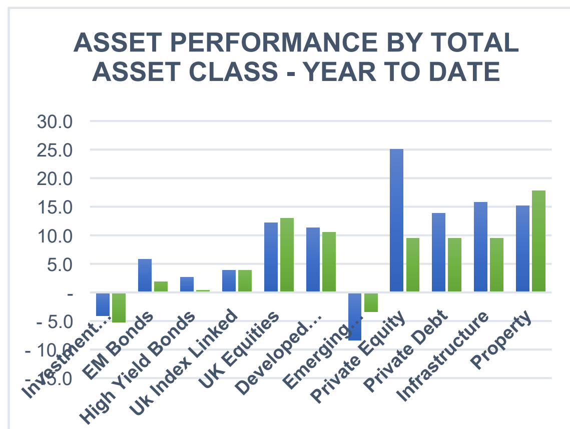
Jan-22
Mar-22



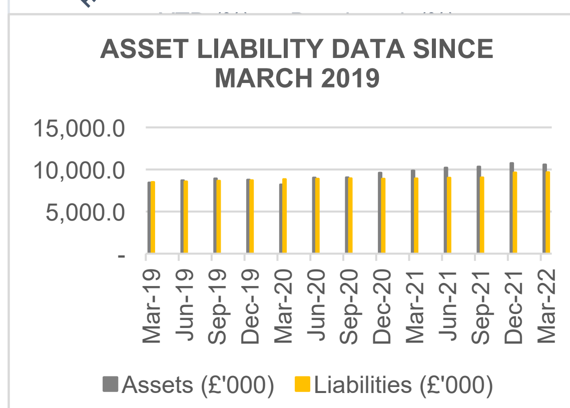
TOTAL FUND RETURN
15.0
10.0
5.0
-
- 5.0
Current Qtr
1 Yr
3 Yrs
5 Yrs
10 yrs
SYPA (%)
Benchmark (%)
CPI +3.1% (Actuarial)



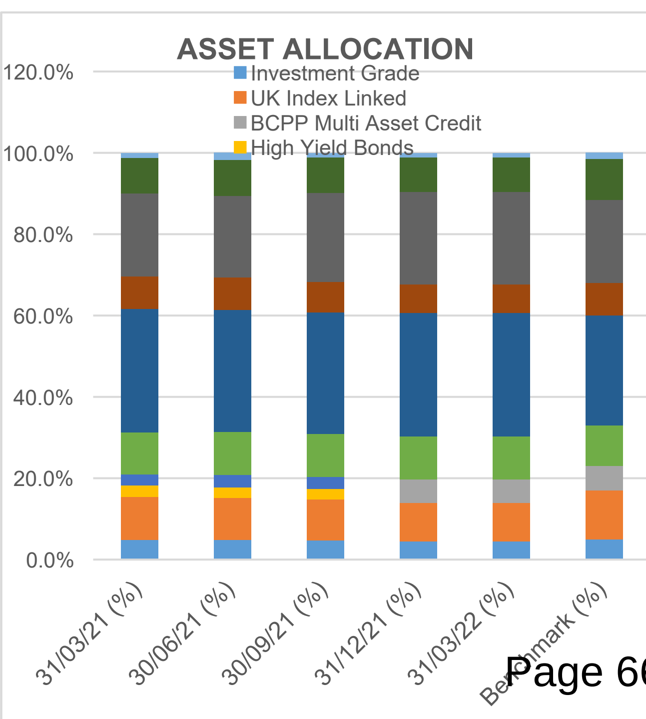
BREAKDOWN OF NET CONTRIBUTIONS
20.0
15.0
10.0
5.0
-
- 5.0
- 10.0
- 15.0
- 20.0
- 25.0
14.2 14.3 13.9 14.0 14.8 15.1 14.7 14.6 14.6 14.7 1.1 14.7 14.8 14.8 14.8 14.7 14.8 14.8 15.0
- 20.7 20.6 20.8 20.8 20.8 20.9 21.0 21.0 21.0 21.6 21.1 21.2 21.3 21.3 21.3 21.4 21.5 21.6 21.5
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21
Apr-21
May-21
Jun-21
Jul-21
Aug-21
Sep-21
Oct-21
Nov-21
Dec-21
Gross Contributions
Benefits Paid



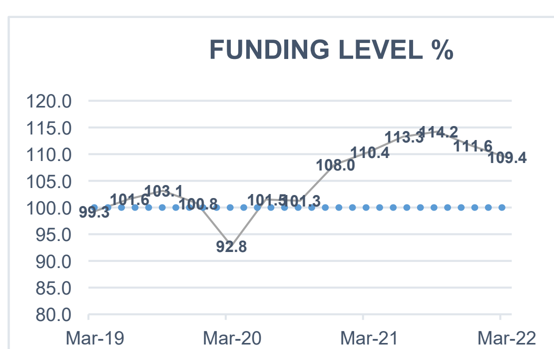
ASSET PERFORMANCE BY TOTAL ASSET CLASS - YEAR TO DATE
30.0
25.0
20.0
15.0
10.0
5.0
-
- 5.0
- 10.0
- 15.0
Investment...
EM Bonds
High Yield Bonds
Uk Index Linked
UK Equities
Developed...
Emerging...
Private Equity
Private Debt
Infrastructure
Property



ASSET LIABILITY DATA SINCE MARCH 2019
15,000.0
10,000.0
5,000.0
-
Mar-19
Jun-19
Sep-19
Dec-19
Mar-20
Jun-20
Sep-20
Dec-20
Mar-21
Jun-21
Sep-21
Dec-21
Mar-22
Assets (£'000)
Liabilities (£'000)



ASSET ALLOCATION
Investment Grade
UK Index Linked
BCPP Multi Asset Credit
High Yield Bonds
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
31/03/21 (%)
30/06/21 (%)
30/09/21 (%)
31/12/21 (%)
31/03/22 (%)
Benchmark (%)



FUNDING LEVEL %
120.0
115.0
110.0
105.0
100.0
95.0
90.0
85.0
80.0
99.3
101.6
103.1
100.8
92.8
101.5
101.3
108.0
110.4
113.3
114.2
111.6
109.4
Mar-19
Mar-20
Mar-21
Mar-22

Market background

The quarter proved exceptionally volatile with a combination of geopolitical unrest, rising inflation, tightening monetary policy and the ongoing pandemic causing a broad sell-off across most major asset classes. Russia's invasion of Ukraine in late February caused a global shock and commodity prices soared given Russia is a key producer of several important commodities, including oil, gas and wheat. This contributed to a further surge in inflation. China was also negatively affected by renewed Covid-19 outbreaks, leading to new lockdowns in some major cities and further supply chain disruption.

UK equities were resilient as the FTSE 100 index rose over the quarter due to the high weighting of oil, mining, healthcare and banking sectors in the index. The Bank of England moved to hike rates ahead of other developed market central banks. They had two consecutive 25bps rises in February and March. UK consumer price inflation is expected to rise to over 9% later this year before falling back in Q1 2023. The Chancellor announced additional measures alongside his Spring statement which he says was to support the UK consumer

Global equities fell over the quarter in sterling terms with the developed markets outperforming emerging markets. Asia Pacific ex Japan was the strongest performing region with Europe ex-UK being the weakest region. The Chinese market remained weak, due to concerns over government action to rebalance the economy and a resurgence of Covid cases.

As the conflict in Ukraine started there was a short-lived rotation towards safe haven assets and bond prices rose but as things started to unfold investors focussed on the increasing inflationary pressures and government bond yields rose sharply as markets priced in a faster pace of monetary normalisation. Corporate bonds saw significant negative returns and wider spreads, underperforming government bonds. High yield spreads widened more than investment grade although total returns were better due to income. Emerging market bonds were also negative with local currency bonds slightly more resilient than hard currency bonds.

Commodity indexes rose strongly driven by sharply higher prices for energy and wheat following Russia's invasion of Ukraine.

Real estate returns were positive with all sectors rising. Industrials were the strongest with hotels the weakest. UK real estate transaction volumes remained strong despite concerns about the Omicron variant of Covid-19 and the less supportive central bank policies.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Fund Valuation

as at 31 March 2022

	Dec-21		Quarterly Net	Mar-22		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	485.6	4.5	0.0	454.7	4.3	5	
UK ILGs - BCPP	952.6	8.8	0.0	870.7	8.2	10	
UK ILGs SYPA	69.3	0.6	0.0	63.5	0.6		
MAC - BCPP	617.9	5.7	0.0	587.3	5.5	6	
TOTAL	2125.4	19.7	0.0	1976.2	18.6	21	16-26
UK EQUITIES	1144.1	10.6	-10.0	1140.8	10.7	10	5 _ 15
INTERNATIONAL EQUITIES							
Developed Market - BCPP	3237.6	30.0	-60.0	3099.6	29.1	27.125	
Developed Market - SYPA	28.1	0.3	-7.0	24.7	0.2		
Emerging Market - BCPP	768.9	7.1	0.0	721.2	6.8	7.875	
Emerging Market - SYPA	2.4	0.0	-0.3	1.0	0.0		
TOTAL	4037.0	37.4	-67.3	3846.4	36.1	35	30-40
LISTED ALTERNATIVES - BCPP	0.0		190.8	198.6	1.9	0	
PRIVATE EQUITY							
BCPP	140.4		13.9	155.7			
SYPA	881.5		-52.3	888.1			
TOTAL	1021.9	9.5	-38.4	1043.8	9.8	7	5_9
PRIVATE DEBT FUNDS							
BCPP	33.8		12.0	46.0			
SYPA	485.1		-9.6	491.9			
TOTAL	518.9	4.8	2.4	537.9	5.0	5.5	4.5-6.5
INFRASTRUCTURE							
BCPP	160.5		24.1	184.4			
SYPA	748.3		-92.5	695.3			
TOTAL	908.8	8.4	-68.4	879.7	8.3	10	8_12
PROPERTY	915.2	8.5	-26.4	911.8	8.6	10	8_12
CASH	124.6	1.2		118.7	1.1	1.5	0-5
TOTAL FUND	10795.9	100.0		10653.9	100.0	100	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	1272.8			1321.7			

Asset Allocation Summary

The largest transaction this quarter was the transition of £140m of listed alternative holdings to the new Border to Coast Listed Alternatives fund. This took place at the end of January.

Ahead of the above transition we reduced our listed equity holdings by £70m. £50m of this was invested into the listed alternative fund.

At the same time we had further drawdowns of £10m across the infrastructure and private debt funds.

Within property we completed on three sale transactions during the quarter. Winterhill Retail Park was sold for £15m, Chertsey Street Guildford was sold for £12.7m and Union Street, Bath sold for £1.7m. These were all transactions that were reported in the 2021 strategic plan.

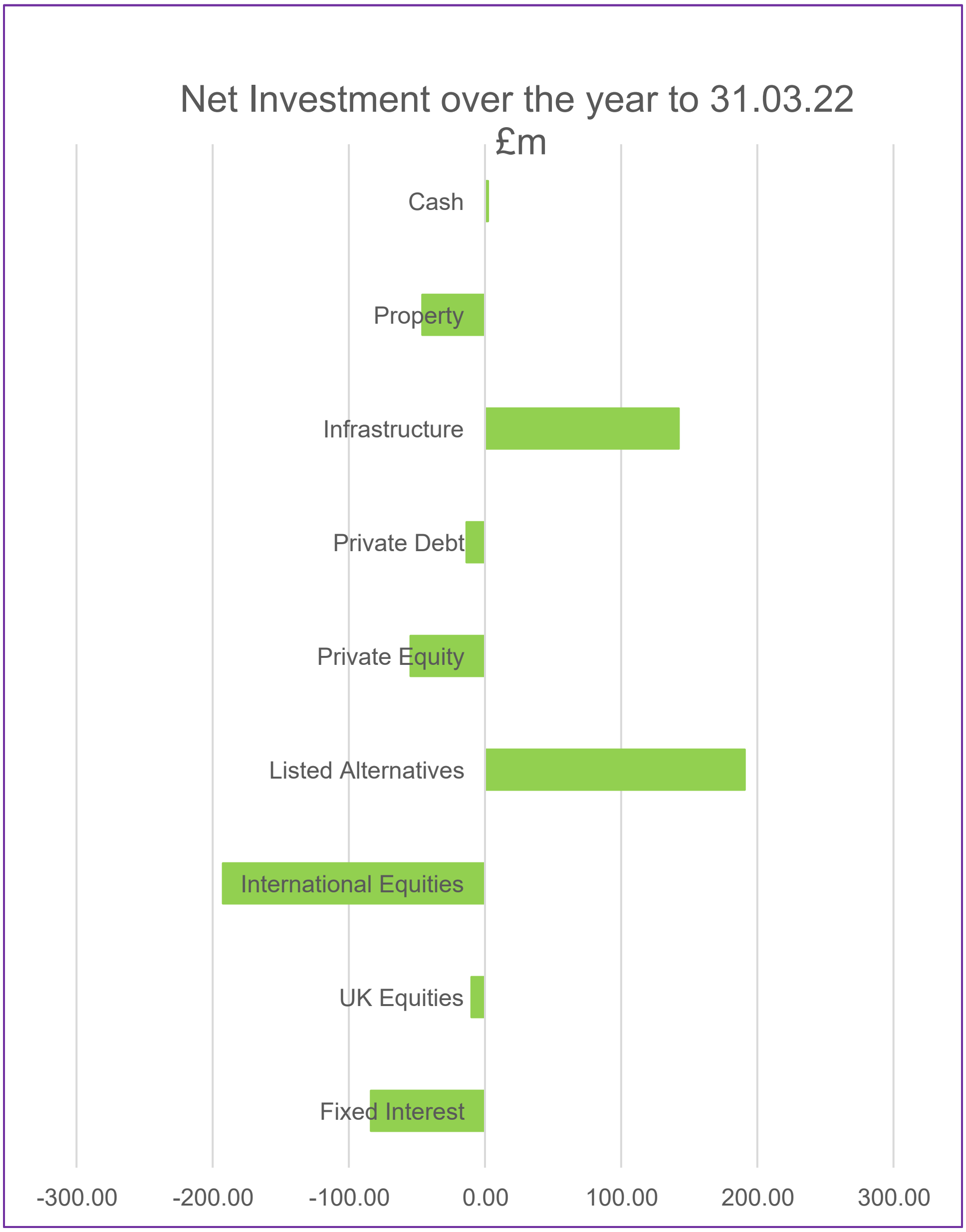
There is now only one category that is outside it's tactical range and that is private equity.

We have seen continued uplift in valuations from our private equity fund holdings and although we had a net £38m realisation over the quarter we actually saw an increase in weighting to this category. As we have been reducing our annual commitment to this category over the last few years as realisations come through the overall weighting should reduce.

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

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

Asset Allocation Summary



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	934.2	8.8	**-1.2**
Sterling Inv Grade Credit	5	3 - 7	454.7	4.3	**-0.7**
Multi Asset Credit	6	4 - 8	587.3	5.5	**-0.5**
UK Equities	10	5 - 15	1140.8	10.7	**0.7**
Overseas Equities	35	30 - 40	3846.4	36.1	**1.1**
Private Equity	7	5 - 9	1043.8	9.8	**2.8**
Private Debt	5.5	4.5-6.5	537.9	5.0	**-0.5**
Infrastructure	10	8 - 12	879.7	8.3	**-1.7**
Listed Infrastructure	0	0-2	198.6	1.9	**1.9**
Property	10	8 - 12	911.8	8.6	**-1.4**
Cash	1.5	0 - 5	118.7	1.1	**-0.4**
Total	100		10653.9	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

Performance

as at 31 March 2022

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	-5.8	-6.2	-4.1	-5.2
UK ILGs	-8.6	-8.6	3.9	3.9
High Yield Bonds			2.7	0.4
EM Bonds			5.8	1.9
Multi Asset Credit - BCPP	-4.9	1.0		
TOTAL	-6.9	-7.3	0.8	-0.7
UK EQUITIES	0.6	0.5	12.2	13.0
INTERNATIONAL EQUITIES				
Developed Market - BCPP	-2.4	-2.7	11.4	10.5
Developed Market - SYPA	-6.1	-2.7	4.9	10.5
Emerging Market - BCPP	-6.2	-2.5	-8.4	-3.7
Emerging Market - SYPA	7.2	-2.5	1.9	-3.7
TOTAL	-3.1	-2.6	7.0	7.3
PRIVATE EQUITY	6.0	2.3	25.1	9.5
PRIVATE DEBT FUNDS	3.3	2.3	13.9	9.5
INFRASTRUCTURE	5.1	2.3	15.8	9.5
PROPERTY	3.4	4.2	15.2	17.8
CASH	0.0	0.0	0.0	0.0
TOTAL FUND	-1.0	-1.5	9.6	7.7

Performance Summary

For the quarter to the end of March, the Fund returned -1.0% against the expected benchmark return of -1.6% and this was all sue to stock selection.

The breakdown of the stock selection is as follows:-

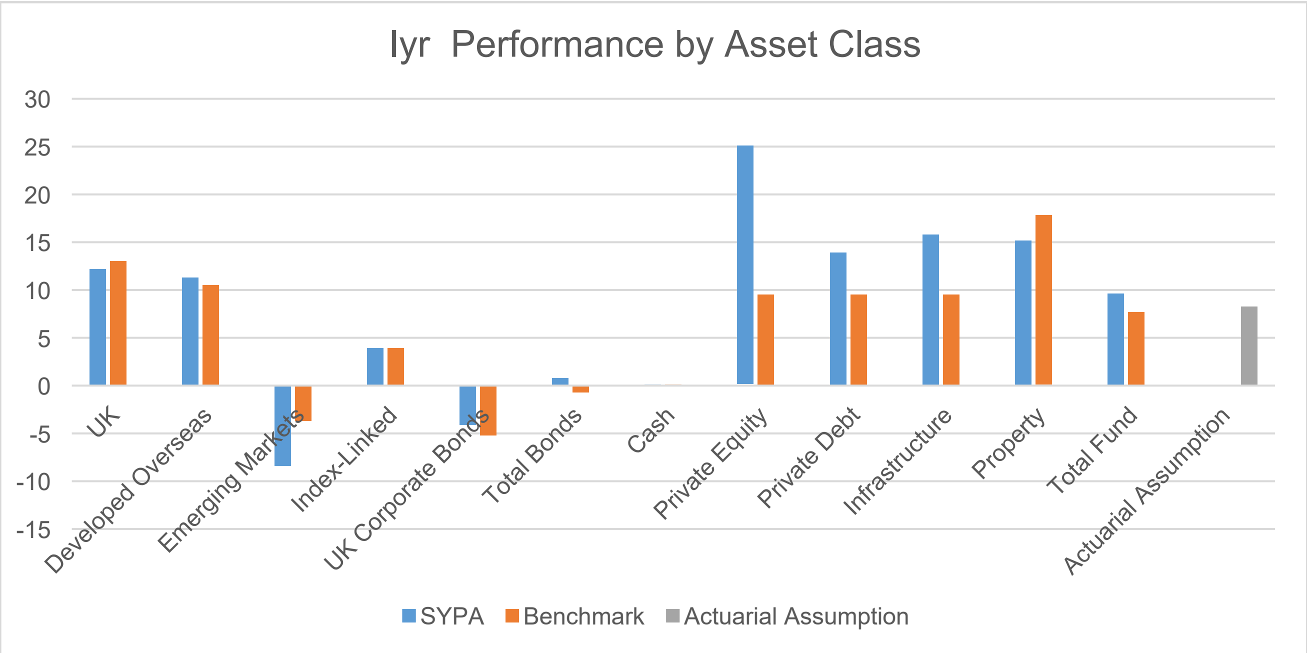
DM Overseas Equities	0.1%
EM Overseas Equities	-0.3%
Total Bonds	0.2%
Private Equity funds	0.3%
Private Debt funds	0.1%
Infrastructure funds	0.2%
Property	-0.1%

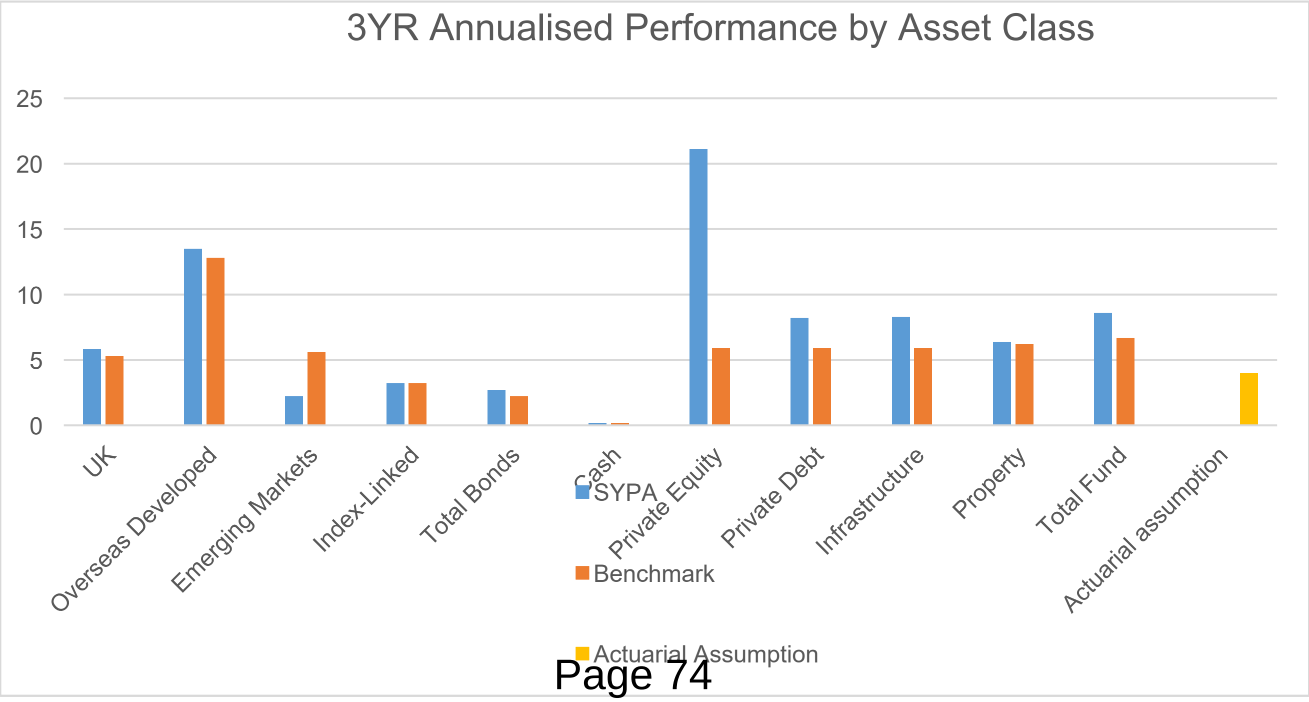
For the financial year the return of the Fund at 9.6% is above the expected return of the benchmark of 7.7%.

Asset allocation during the year contributed 0.1% with the remainder being due to stock selection.

UK Equities	-0.1%
DM Overseas Equities	0.2%
EM Overseas Equities	-0.4%
Total Bonds	0.3%
Private Equity funds	1.3%
Private Debt funds	0.2%
Infrastructure funds	0.5%
Property	-0.3%

Performance-Medium term





Performance – Border to Coast Funds

This quarter the UK equity portfolio showed outperformance of its benchmark. The portfolio benefited by being overweight basic materials where commodities did well on recent supply concerns triggered by the Russia/Ukraine conflict and by rising inflation and consumer confidence concerns.

The Overseas Developed Market portfolio continued it’s steady outperformance with all regions except for Pacific ex-Japan outperforming their respective benchmarks.

The Emerging Market fund suffered this quarter with its small overweight to Russia being the largest detractor to performance. Also the Chinese market was once again under pressure as new Covid outbreaks and subsequent lockdowns putting renewed pressure on supply chains and the prospect of weaker than anticipated Chinese GDP growth.

Gilt yields increased significantly as inflation continued to rise and the Bank of England raised interest twice, from 0.25% to 0.5% in early February and to 0.75% in mid-March. The increase in yields resulted in a total return of -8.6%, in line with the benchmark.

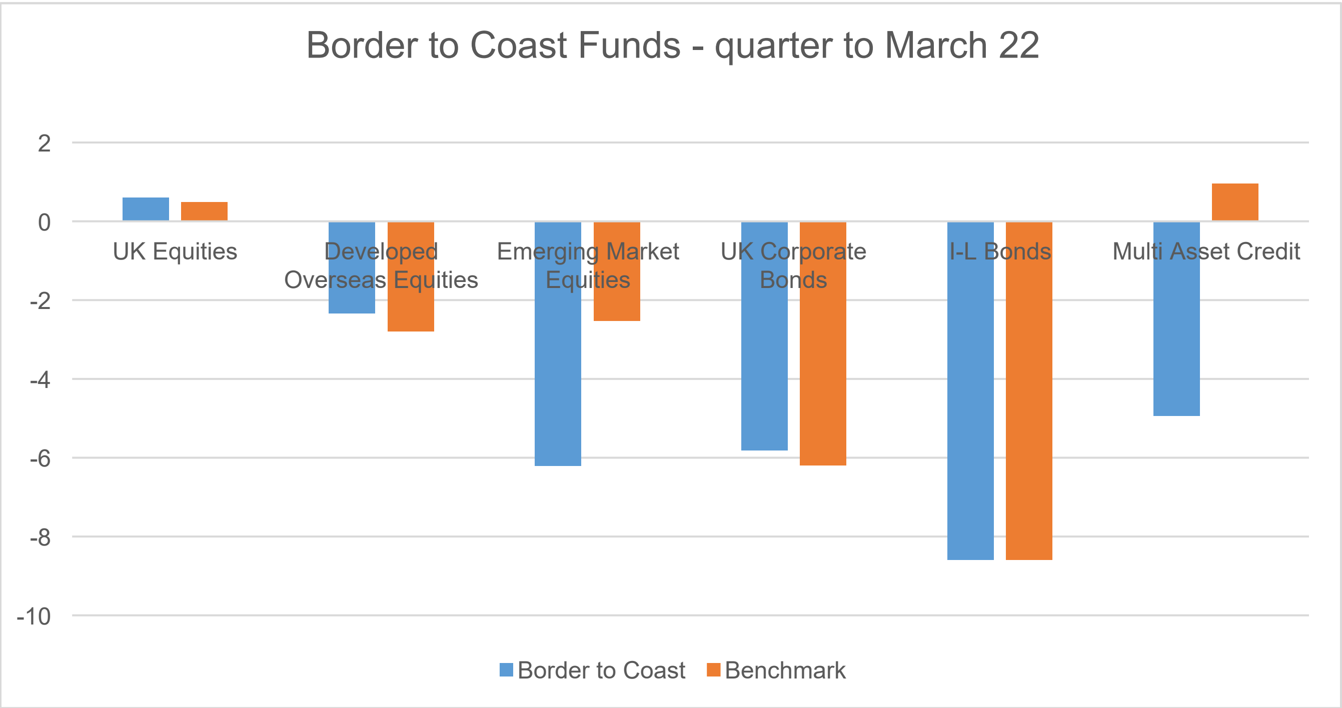
Despite a challenging period for investment grade credit and particularly those assets that are sensitive to interest rate movements, the portfolio continued to outperform its benchmark with all three managers outperforming.

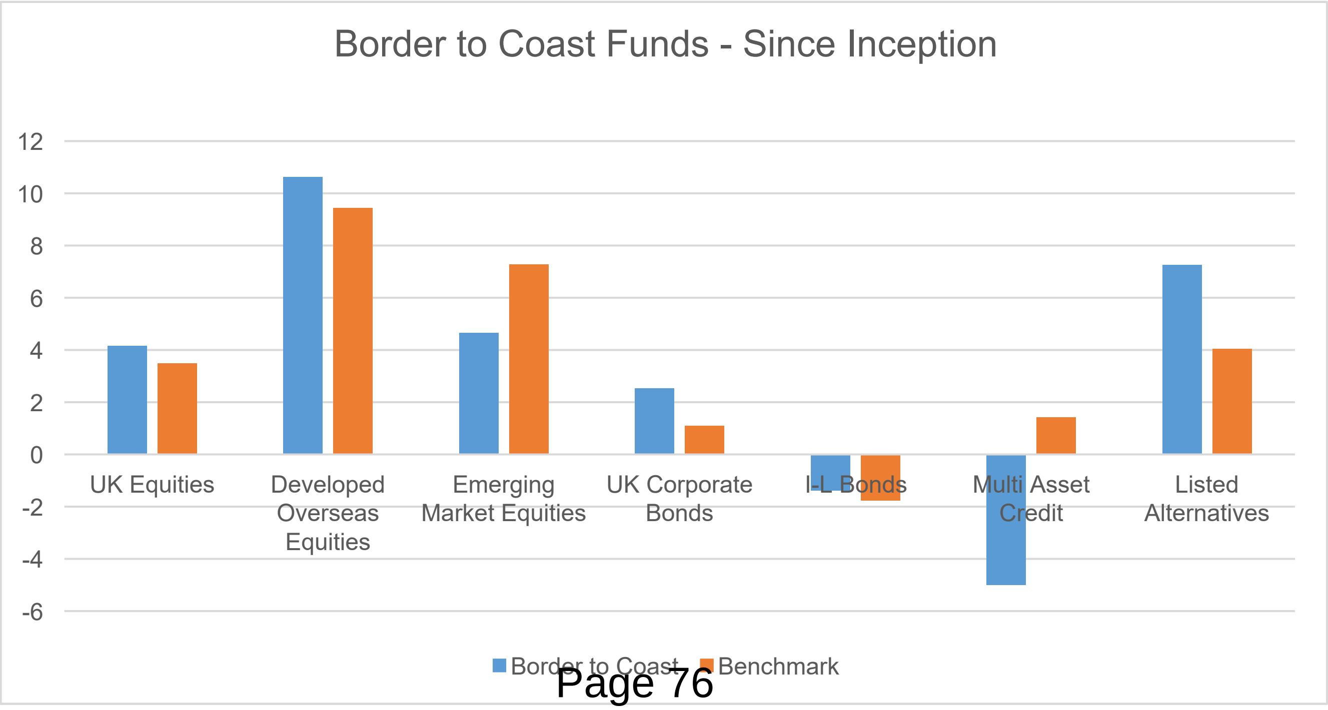
The Multi-Asset Credit fund has an absolute return benchmark and this quarter all the underlying fixed income asset classes experienced weak performance as central banks stepped back from their accommodative stance and thus led to underperformance. Also the war in the Ukraine weighed heavily on risk asset prices. They only slightly underperformed their secondary benchmark (-0.3%)

The Listed Alternatives fund showed outperformance for the period since 18th February when the portfolio came out of transition. However it is still too early to comment on performance

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

Performance-Border to Coast Funds





Funding Level

The funding level as at 31 March 2022 is estimated to be 109%

The breakdown is as follows:

Fund’s Assets at 31 March	£10.586
Funds estimated Liabilities at 31 March	£9,673

Caveat
This estimate is calculated on a rollforward basis. This means that there is no allowance made for any actual member experience since the last formal valuation on 31 March 2019.

Alternative Fund Commitments for 2022

Private Equity	£100m
Private Debt	£140m
Infrastructure	£185m
Climate opportunities	£80m (3 year commitment is £245m)
Total commitment	£505m

Outlook

Geopolitical and monetary risks are higher than we have seen for many years. Monetary policy tightening and the subsequent implications for economies will be key for the markets. Inflation risk is the greatest challenge for most investors with concern that higher than expected inflation accelerates the removal of policy accommodation. Central banks will have to manage monetary conditions well to avoid falling into recession.

From an asset allocation perspective, equities face headwinds but should still outperform bonds as equities will still be supported by earnings growth even if it is lower than in 2021. Policy tightening by the Central Banks will lead to higher yields and thus negative bond performance.

UK Equities

At this time we prefer UK equities to other developed equity markets as relatively high exposure to defensive stocks and commodities means that the market should be better able to withstand geopolitical deterioration relative to other markets. UK inflation is expected to peak later this year, driven by higher energy prices, however the government has announced additional measures which are designed to support the UK consumer.

Overseas equities

We expect market conditions to remain volatile as higher than expected inflation accelerates the removal of monetary policy accommodation. The US economy is relatively less vulnerable to geopolitical concerns given its energy independence, but rising rates pose a valuation issue for US equities. Europe's heavy dependence on Russia for oil and gas has created uncertainty about the security of supply and fears remain that high energy prices will weigh on both business and consumer demand. Japan is less impacted by the situation in Europe with the government introducing gas subsidies to support growth by helping household consumption. However a global recovery is crucial for this export led market. The risk to equities is that if rate hikes need to come even faster than currently anticipated. We are now only moderately overweight overseas equities although we are underweight emerging markets relative to our benchmark weighting.

Outlook

Equities cont

We see no reason to adjust this position as although valuations for emerging markets do not look expensive the market outlook has deteriorated. Also the resurgent number of Covid cases and lockdowns in some major cities in China is exacerbating the situation.

Bonds

Currently the case for chasing returns in lower rated securities is not compelling as economic conditions are less favourable than twelve months ago and valuations don't fully compensate for the risks involved. The expectation of higher rates is negative for nominal government bonds and credit markets but given the outlook for higher medium term inflation we would prefer inflation linked bonds. Index-linked gilts give protection against rising inflation but real yields are very low (negative) and likely to rise if nominal yields rise due to higher inflation We are underweight credit against a backdrop of rising rates and high valuations. At the moment we prefer to take moderate risk in equities.

Real Estate

The expectation is that UK real estate will provide robust returns in 2022, but will not reach the levels seen in 2021 as it is expected that performance will moderate in response to the weakening macroeconomic environment. The rate of inflation is anticipated to continue rising over the next couple of quarters and thus bond yields will move out. The higher bond yields will act as a cap on any further yield compression especially in the lower yielding areas in the market such as the industrial and logistics sector.

It is expected that the industrial sector will remain the key sector call driven by strong rental growth, and investors continuing to target the sector as a result. The office sector is still expected to come under further structural pressure with secondary assets with poor ESG credentials being at risk as demand continues to focus on best-in-class assets. However, they are still expected to underperform the broader market. Retail performance despite showing some recovery is still likely to be under pressure, with discount-led retail warehouse schemes once again driving performance.

Outlook

Real Estate cont
The alternatives sector is expected to see continued growth with focus directed to those areas with strong demographic drivers, such as the private residential sector (including student accommodation) and healthcare.

The Fund has a positive weighting to London & SE industrials but could benefit from healthcare exposure alongside better quality student halls. Retail (dominant standard shops in particular) performance looks to be returning and will start to drive performance, this should also be an area to consider alongside further exposure to supermarkets.
Will look to selectively increase weighting.

Alternatives

The alternative investment market which includes investments within private equity, private debt and infrastructure, have the potential to add value and diversification. They generally generate 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. We have weighted our commitments this year to private debt and infrastructure where we are still underweight and have made a smaller commitment to private equity where we are overweight. Within our alternative allocation we have also made a commitment to the new Climate Opportunities Fund.

Cash

Cash is now at a level that any further cash requirement will be financed by switching among the asset classes.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 4 2021/22

May 2022

Contents

Highlights and Recommendations

Highlights over the quarter to the end of March include:

- An increase of 1/3 in the number of votes cast as we move into peak voting season.
- An increase in votes against management reflecting the tightening of the voting guidelines in a number of areas including board diversity and having credible plans to achieve Net Zero.
- A reduction in engagement activity following the peak around CoP26 in the last quarter.
- A move back to a position where over 50% of engagement activity involved direct interaction with the relevant company after last quarter's peak in letter writing due to CoP26.
- The closure of an engagement around single use plastics which achieved some positive movement on the issue.
- Maintenance of strong ESG ratings for the three equity portfolios and the publication of the first assessment of the ESG performance of the Investment Grade Credit portfolio.
- The availability for the first time of clear metrics for the Commercial Property portfolio indicating a reduction in GHG emissions and reduced energy consumption.
- A mixed picture for the end of year carbon emissions data, although in the context of a broadly improving position. However, a very high risk does remain that when looked at for these portfolios in isolation the 2030 Net Zero goal will not be achieved.
- Continued collaborative activity particularly around nature-based disclosures.

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 is set out in the Responsible Investment Policy an updated version of which appears elsewhere on the Authority's agenda.

Our approach is largely delivered in collaboration with the other 10 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

This quarter sees the start of "peak voting" or proxy season. Given this Robeco who act as the proxy voting adviser for Border to Coast have set out their focus for this season as set out below

The Annual General Meeting (AGM) is a key moment for investors to exercise their stewardship duties by using voting rights. Even though most agenda items are related to governance topics, environmental and social topics get increasing attention at AGMs. Rubber stamping proposals is a thing of the past, and management can no longer expect high support rates for all their proposals.

Climate expectations have steadily developed beyond setting public long-term carbon reductions targets, to now include concrete plans on how to make progress in the short and medium-term. Additionally, 2022 will be the second year in which several companies will propose a so-called Say on Climate, a management proposal requesting shareholders' approval on the company's climate transition plan. Last year shareholders still had to get used to these proposals, which resulted in high degrees of shareholder support. We expect that this year shareholders will have further developed their voting approaches on Say on Climate and might take a stricter stance on these plans.

The Social (S) in ESG is also increasingly receiving the spotlight during AGMs. Investors become more aware of the relevance of human resource management, providing a fair workplace, and having diversity in oversight. As evidenced by the rise in shareholder proposals focusing on these issues and improvements in investors' stewardship policies e.g. by pushing for broader diversity on boards.

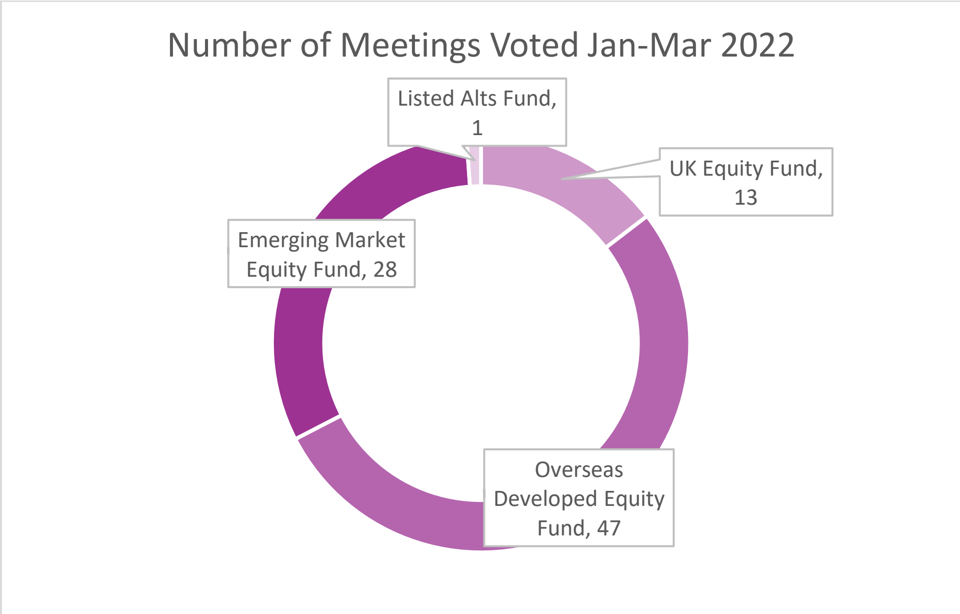
While investors' push for incorporation of ESG under variable pay is partially successful, often the chosen metrics are not that material, and it is unclear how performance is measured. The ESG metrics should be treated the same way as financial metrics in remuneration; they should be measurable, require management effort to achieve, and should be underpinned by a strategy. Like the rest of incentive pay, ESG in remuneration should also be pay for performance.

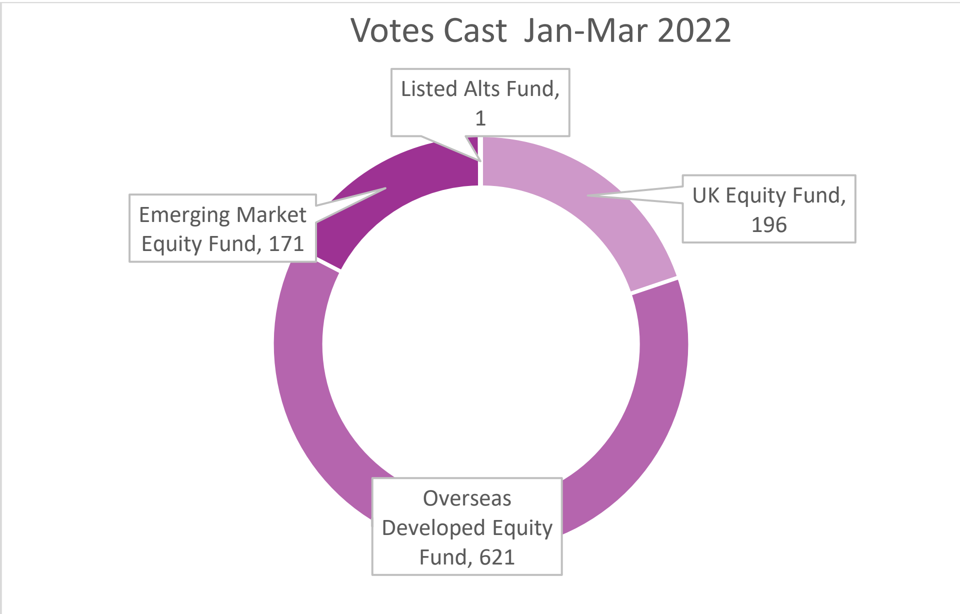
As well as the increased number of environmental and social topics making it on to agendas, governance remains a key topic. We are content to see that, after years of lagging other developed peers, Japan is raising its expectations for the percentage of independent directors. Similarly, initial positive steps are being taken by the Brazilian stock exchange and exchange commission in improving its proxy voting mechanisms for foreign investors.

All in all, this proxy season is prone to be an exciting one with a varied range of ESG issues likely to receive improved attention during this AGM season.

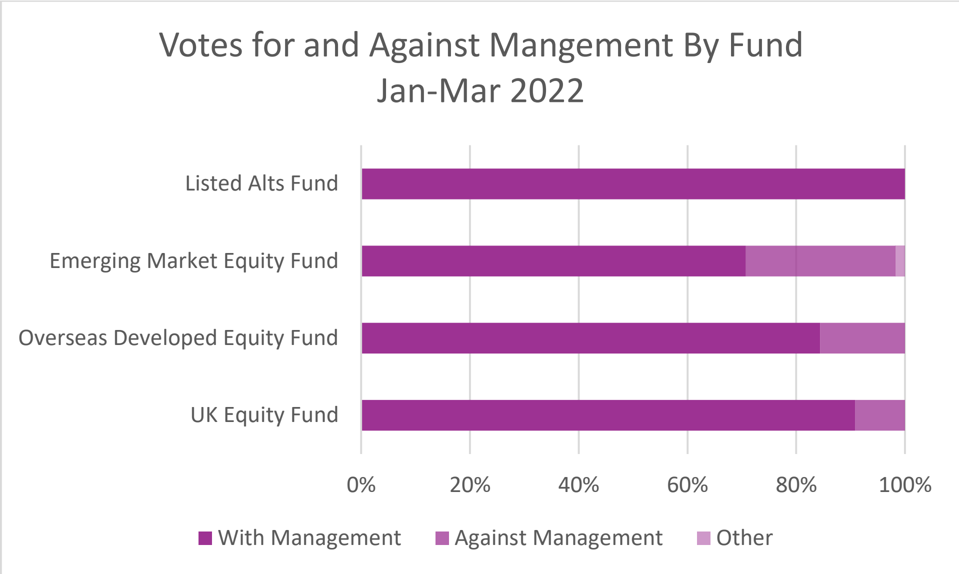
Robeco – May 2022

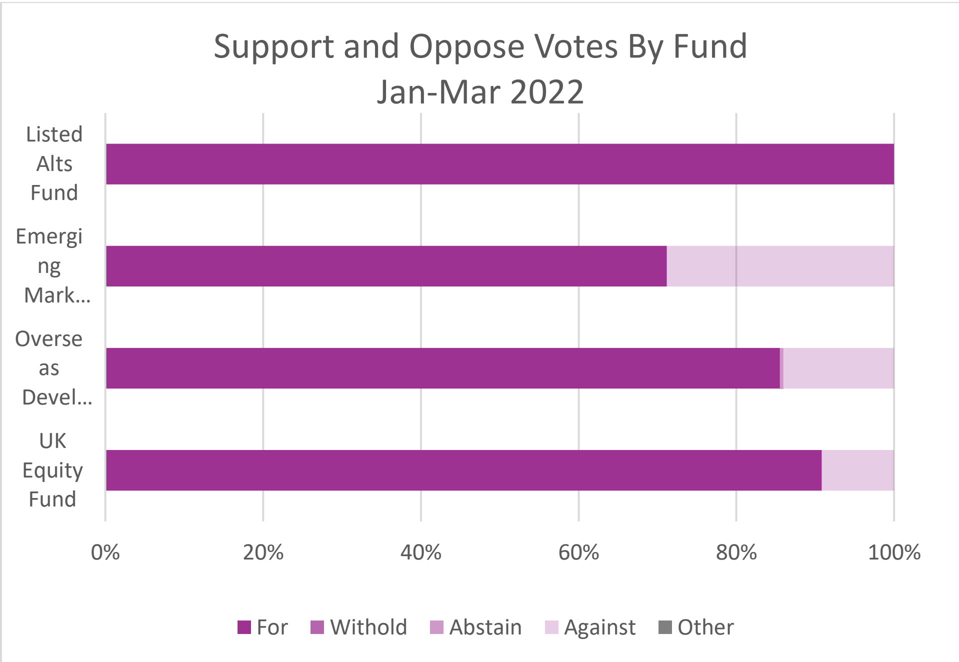
The level of activity this quarter rose in terms of votes cast (by 32%) although fewer meetings were attended than in the last quarter. This is largely due to the concentration of meetings in the developed markets where annual meetings tend to consider more resolutions. In addition, the launch of the Listed Alternatives Fund has added a further range of meetings to be attended and voted at, although its launch late in the quarter means that there has been no significant impact on the figures as yet. The charts below show how the Authority's holdings in listed equities were voted in the period to the end of March 2022. 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 is shown in the charts below.





The conclusion that can be drawn from this and from the data from previous quarters is that the tightening of voting guidelines in particular in relation to Board diversity and climate where there are now automatic triggers for oppose votes has resulted in an increase in both votes against resolutions and votes against management. Over the course of the year the proportion of resolutions voted against has risen from 10.6% last year to 12.1% this year and votes against management from 11.7% last year to 13.5% this. While this is a marked increase it does not reflect any philosophical change, policy and the voting guidelines remain supportive of management that acts in the long term interests of shareholders. This is also in line with the expectations set out in Robeco's statement quoted above.

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

Apple - Apple is a major IT company held in the overseas fund. We voted against the remuneration report on the grounds that the overall quantum of remuneration was too great and that the incentive plan was overly reliant on a single metric. We also supported resolutions to ask the company to disclose pay gaps across race and gender, to undertake a civil rights audit which would be particularly relevant to some concerns previously raised about operations in China and a resolution askiing for a public report on the use of what in the UK would be called Non Disclosure Agreements

Costco - Costco is a Wholesale warehouse operator based in the US with global operations held in the overseas fund. We supported a resolution which received around 70% support requiring the setting of science based targets to achieve net zero by 2050 accompanied by annual public reporting. We supported a resoultion aimed to improve transparency by requiring hte company to report on its sustainability commitment in order to address sturcutral racism, nutrition insecurity and health disparities. These issues represent significant reputational and operational risks for the company. The resolution received 17% support, but was the first of its sort at this company

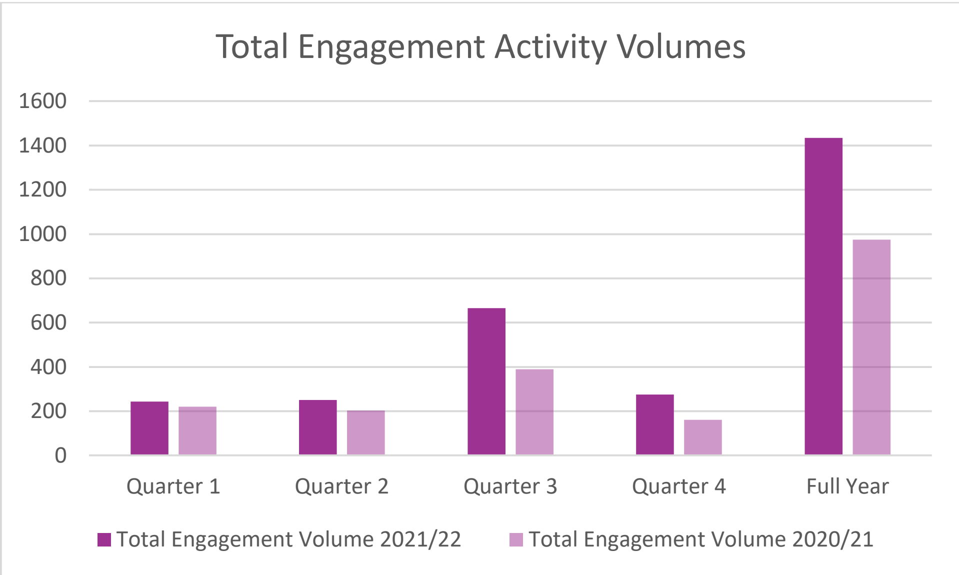
Banco Bradesco - This is a Brazilian bank held in the Emerging Markets Fund. While by offering the Board up for individual election the Company to some extent follows global best practice the influence of family ownership and affiliates limits the independence of the Board. We voted against a number of directors on grounds of their lack of indenpendence and against the remuneration policy which was opaque and it is not clear that incentives are aligned with longer term shareholder interests.

Particular trends in the quarter, in addition to the broader ratcheting up of voting in relation to Board diversity and climate were:

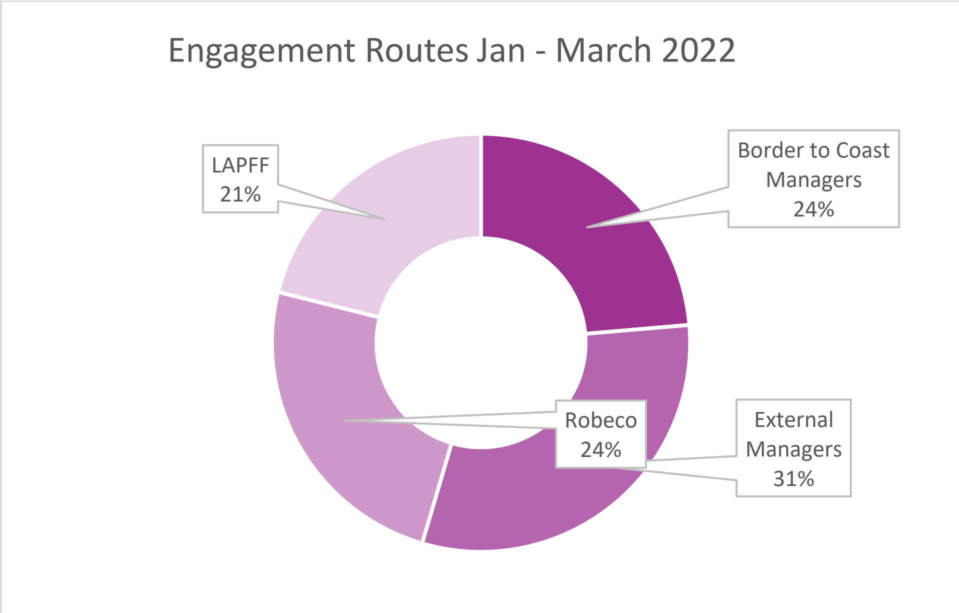
- The continuation of engagement with the authorities in Brazil around rules on the election of directors which do not conform with international best practice and rules which make it more difficult for international investors to effectively exercise their stewardship responsibilities. This has had positive outcomes in terms of revised guidelines for companies on their AGM voting arrangements and the setting up of a working group to develop further regulatory improvements. The revised guidelines will benefit international shareholders in this voting season.
- An increasing number of resolutions calling for transparency around social issues particularly at US companies, this included the resolutions at Apple and Costco referred to above but also at Disney where a resolution to require reporting on pay gaps across race and gender received 60% support.
- Continuing votes against the appointment of directors not regarded as sufficiently independent.

Engagement Activity

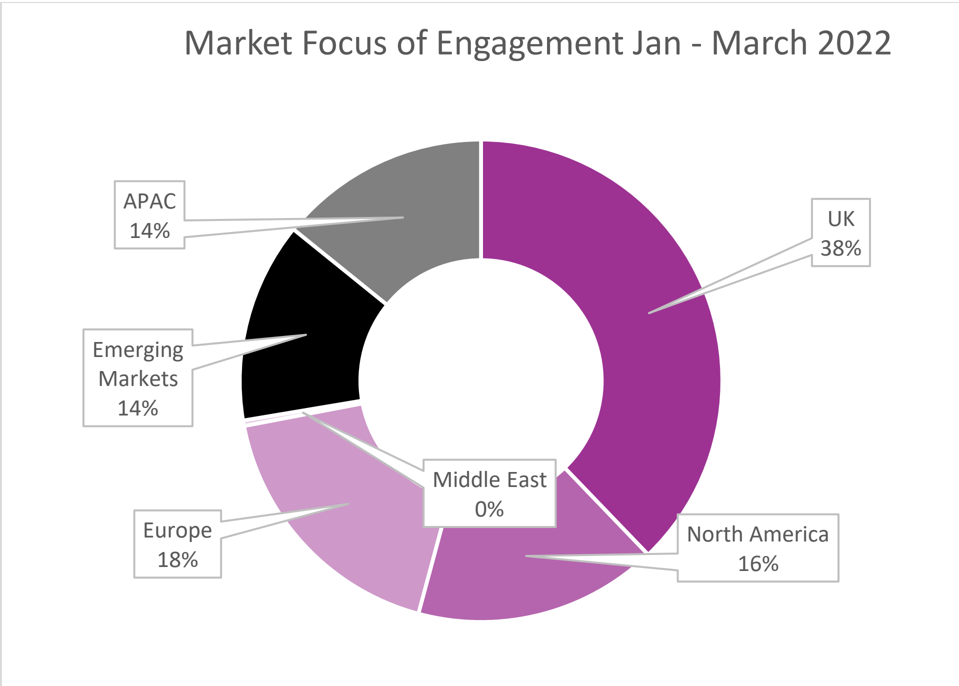
Engagement is the process by which the Authority working together with other like-minded investors seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority such as the 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, as well as the method of engagement undertaken.



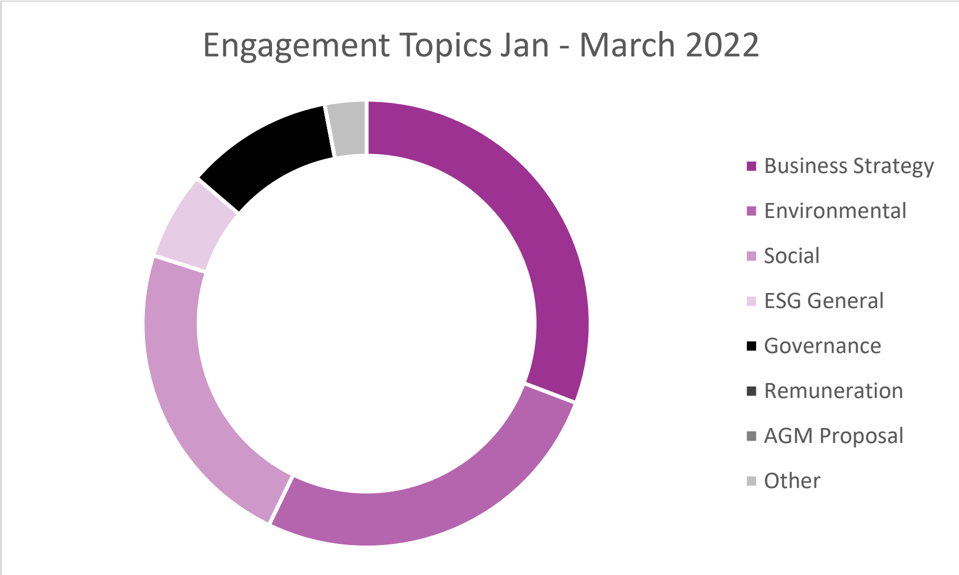
As can be seen the level of engagement activity in the quarter fell to a more normal level following a peak of activity in the third quarter driven by CoP 26 in November 20221 which contributed to a 47% increase in the volume of activity for the year. As can be seen in the chart below the reduction in activity for the quarter was particularly marked in the work being undertaken by LAPFF which last quarter represented 2/3 of activity. While Robeco's activity also reduced to a much lesser extent the activity of the external managers on the investment grade credit fund and the Border to Coast portfolio managers both increased significantly in the quarter driven to some extent by the lead up to AGM season.



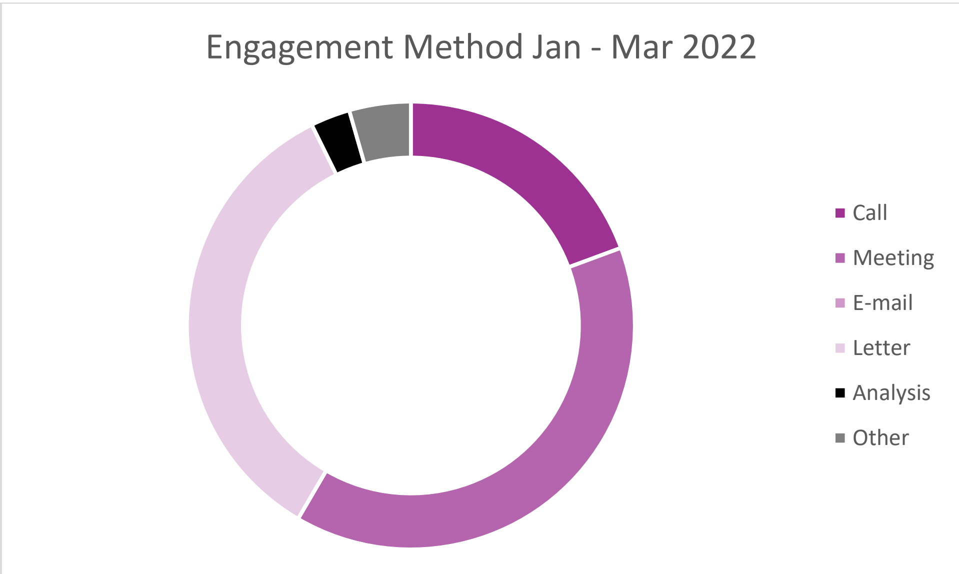
The focus of activity in the UK reduced in the quarter with a much more even spread of activity across the other regions. Again this was driven a significant focus on engagement with UK companies by LAPFF in the last quarter leading up to CoP 26.



The influence of CoP 26 dropping out of the figures for this quarter is also apparent when looking at the subjects engaged on where environmental issues have dropped from 74% of the total last quarter to 26% this time with a more even spread of issues overall and a significant increase in business strategy focussed engagements in the lead up to AGM season.



Again the method by which companies are engaged has significantly changed this quarter as the significant letter based engagement by LAPFF around CoP 26 drops out of the figures as shown below. A move to a situation where over half of engagement involves direct interaction with companies reflects a move towards a greater quality to the interaction,



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:

- Robeco's engagement begun in 2019 around Single Use Plastics was closed. This involved active dialogue with a range of companies. Five companies within the Border to Coast portfolios were engaged and over the three-year period positive progress was made with all the companies. Examples relevant to SYPA's portfolio are:
  - Nestle: Made progress in its roadmap to eliminate harmful plastics and deforestation mitigation. The process is expected to complete in 2024 through fully eliminating products made up of a mix of plastics and papers, including laminates, caps and pvc liners.

  - PepsiCo: Has established best practice in avoiding waste via its SodaStream platform. The platform enables users to track their intake, set goals and measure their positive environmental contribution via plastic bottles avoided.

- The engagement around global controversy continues and the need for engagement around these issues has been emphasised by the war in Ukraine and ongoing events in Myanmar. Robeco have updated their approach to this area aiming to ensure robust governance around oversight and strengthened assessment of a company's behaviour in relation to commonly accepted international norms such as the UN Global Compact. Specifically this includes:

  - A strengthened oversight through a newly established Controversial Behaviour Committee, focusing on assessment of company behaviour and implications.
  - The sourcing of robust data on UN Global Compact and OECD Guidelines breaches
  - Onboarding a dedicated controversy engagement specialist to lead the renewed process and enhanced engagements with companies.

- Robeco have extended the scope of their engagement around palm oil to cover more companies. A specific focus is around encouraging companies to work with groups of smallholders to get organised to achieve certification as sustainable producers. Progress towards the goal of achieving universal sustainability certification was dented by the pandemic and the process now being undertaken is intended to re-energise this and highlight to companies the potential of new technologies such as drones in the monitoring of producer practices.

- Work is also being undertaken on an engagement around sustainable mining addressing the issue that many transition technologies are more mineral intensive than traditional fossil fuel technologies. Robeco have engaged with companies around their water management practices which SYPA has previously highlighted as a particularly negative impact of mining operations. This work has resulted in significant improvements in disclosure both around water management and tailings dam issues which has been another longstanding area of concern. The focus of this work is now moving on to "asset retirement planning" or decommissioning which represents both a significant potential liability for companies and a significant environmental and social risk if not managed correctly. Given the potential financial impact of this issue on companies (and thus on shareholder value) this is a logical priority for focus over the remaining period of this engagement.

More details of the activity undertaken by LAPFF in the quarter is available here. Key issues being worked on include:

- Engagement with government around the new framework for the setting and policing of accounting standards through the new UK Endorsement Board. The key issue is to ensure that the system has sufficient independence of both the auditing profession and management interests so that shareholder and creditor interests are at the heart of the new system.
- LAPFF continued engagement with Shell and Total both around issues of decarbonisation and human rights and geo-political issues, particularly in relation to Ukraine but also in the case of Total in terms of their decision to withdraw from Myanmar.

- The Forum has continued to engage with mining companies around community relations and in particular the impact of their operations on indigenous communities.

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 (6.9 v 6.7)
- 39.7% of portfolio ESG leaders above benchmark.
- 2.2% of portfolio ESG laggards 1% below banchmark.
- 5.1% of portfolio not covered all of which are pooled funds
- Worst scoring companies 1.5% of portfolio
- Emissions below benchmark on all metrics.
- Weight of fossil fuel holdings greater than in benchmark
- All 5 top emitters rated on the Transition Pathway with thre scoring 4, and 4 of the 5 are being engaged by Climate Action 100+.

United Kingdom

- Weighted ESG Score above benchmark (7.8 v 7.7)
- 70.8% of portfolio ESG leaders above benchmark
- 0% of portfolio ESG laggards below benchmark (0.4%)
- 6.6% of portfolio not covered mainly pooled vehicles (6.5%)
- Worst scoring companies 6.4% of portfolio
- Emissions belpw benchmark on 2 metrics and above for WACI.
- Less weight of fossil fuel holdings than in benchmark.
- Top 5 emitters all rated 4 or 4* (highest ratings) on the Transition Pathway and all engaged through Climate Action 100+

Emerging Markets

- Weighted ESG score above benchmark (5.6 v 5.3)
- 23.2% of portfolio ESG leaders above benchmark
- 15.1% of portfolio ESG laggards lower than benchmark (15.9%)
- 4.9% of portfolio not covered mainly pooled vehicles
- Worst scoring companies 5.5% of portfolio.
- Emissions materially below benchmark on all metrics
- Marginally greater weight of fossil fuel holdings than in benchmark.
- 4 of the top 5 emitters engaged with the Transition Pathway with one scoring 4 and two engaged through Climate Action 100+.

In general, this shows a broadly positive picture, with some limited improvement from a relatively high base.

The most significant movements in the quarter were:

- In the Overseas Developed Fund a downgrade for Hyundai Mobis from B to CCC reversing the previous upgrade. This was due to corporate governance concerns related to the complex cross ownership structure with Hyundai Motor Group. The Company is under engagement by Robeco as part of their Corporate Governance in Emerging Markets theme (note Korea is classified as an emerging market for some purposes).
- Within the Emerging Market Fund Formosa Plastics has been rated CCC as a result of the convoluted corporate structure which allows the founding family to maintain control, although this does have some advantages in terms of hedging against some volatility risks.

The carbon metrics are addressed later in this report.

Investment Grade Credit Portfolio

For the first time similar information is now available for the Investment Grade Credit portfolio as is available for the equity portfolios. It is important to note that while the availability and quality of ESG data has been improving in recent years, there can still be material gaps across the fixed income market. This is particularly prevalent where a debt-issuing entity does not also issue publicly-listed equity, which, in most cases, the fixed income issuer maps to. The highlights from this firs report are set out below:

Weighted ESG score less than benchmark (7.0 v 7.3) - largely due to proportion of the portfolio not ESG rated (c24%), but AA rated overall

37% of portfolio ESG leaders compared to 52.8% in the benchmark

2% of portfolio ESG laggards compared to 2.7% on the benchmark

24.4% of portfolio not covered of which 18.1% is companies not covered and 6.3% collective vehicles

Lowest rated issuers represent 1.9% of the portfolio

Emissions below benchmark on 2 of 3 metrics but materially over benchmark for carbon intensity.

Meterially lower than benchmark weight of comapnies wiht fossil fuel reserves.

2 of top 5 emitters being engaged by Climate Action 100+ and both rated 4 on the Transition Pathway

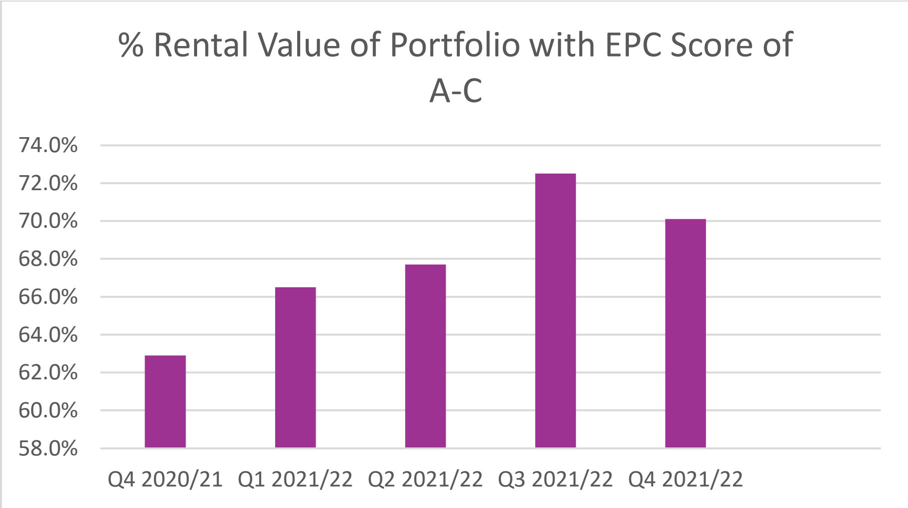
There is a degree to which an actively managed bond portfolio might be expected to have a below benchmark ESG rating in that the manager is seeking credits with better yields which within the investment grade universe might tend to be companies which are slightly less well ESG rated. Despite this the Fund is still rated AA (Leader) overall.

The issues of data are also reflected in the proportion of coverage with nearly a quarter of the portfolio not covered which compares to 6.6& for the UK equity fund.

No one holding dominates emissions within the portfolio, and those of the top 5 emitters which are not covered by the Transition Pathway and Climate Action 100+ engagement are UK power network providers and Transport for London which is a state entity.

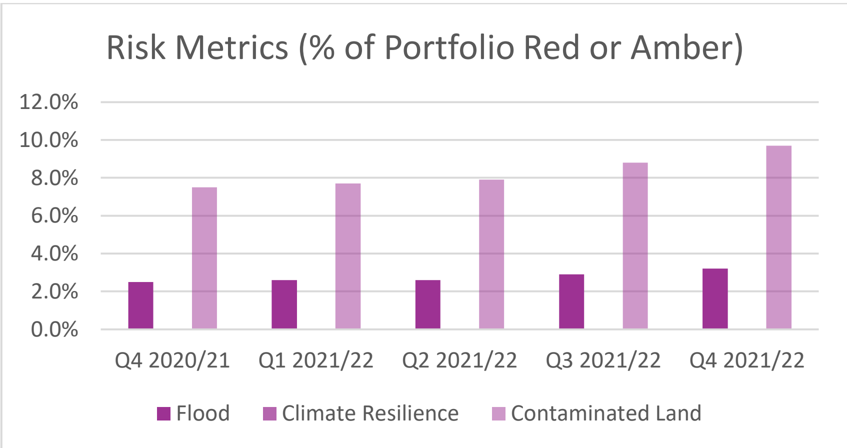
Commercial Property Portfolio

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. The restructuring of the portfolio to remove smaller units and units with less long-term potential has also had an impact on the overall energy performance of the portfolio as shown below:



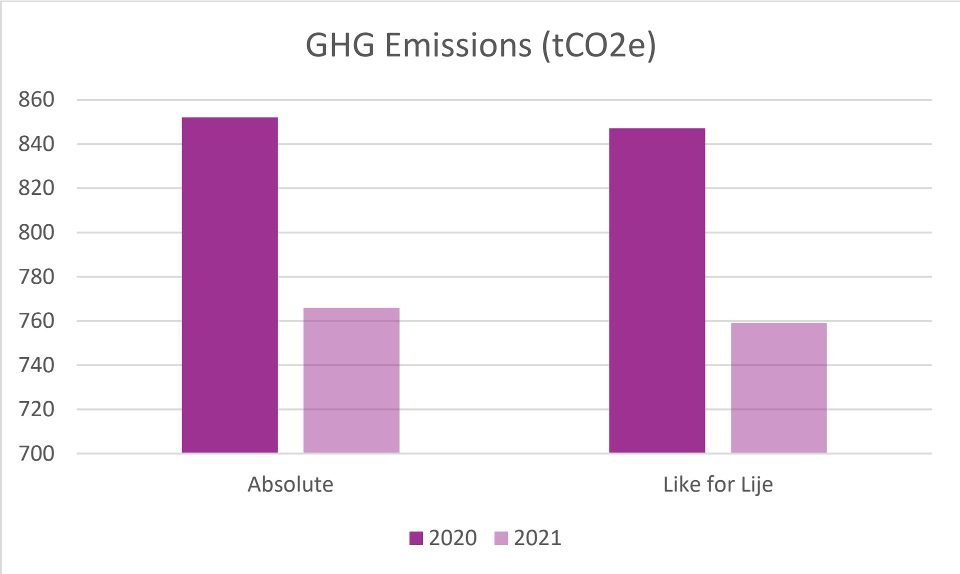
This shows a marked increase in the proportion of assets with higher energy performance since the end of the last financial year although disposals in the last quarter have slightly reduced this. Work is continuing to survey a small number of Scottish assets where EPC data are not available.

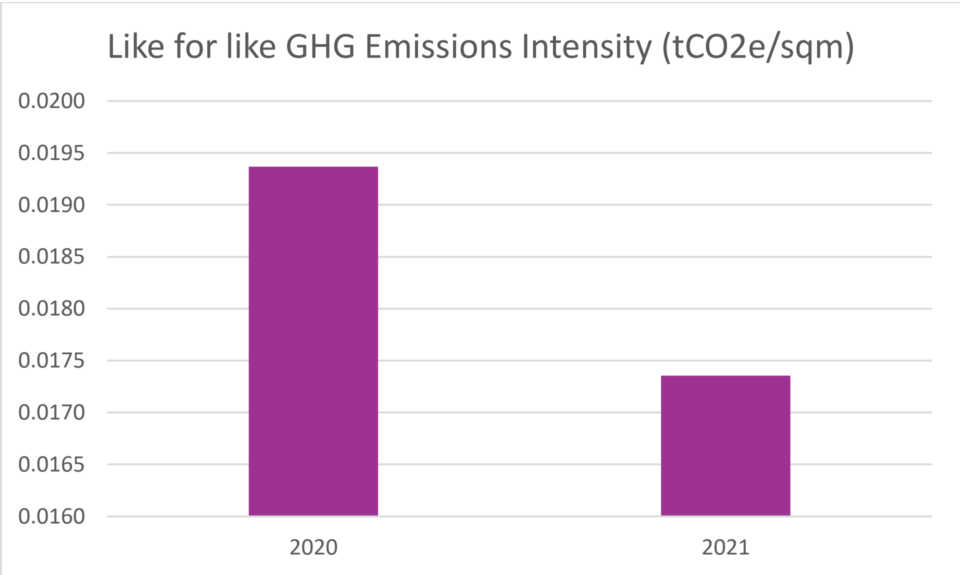
The portfolio restructuring process has also reduced the proportion of assets where specific environmental risks have been identified as shown below. These data have been rebased since the last quarter for updated information. All the identified risks are amber rather than red. Action plans are being developed for each property where such risks are identified to ensure they are addressed within a reasonable timescale.



An important piece of work which Aberdeen Standard have now completed for the first time is to make available GHG emissions data (covering scope 1 and 2) together with energy and water consumption data for the portfolio. These are available for both the portfolio as it is at a particular reference date and on a “like for like” basis, i.e., for those assets present in the portfolio at both reference dates. All these data are for the relevant calendar year due to the time required for data gathering from tenants.

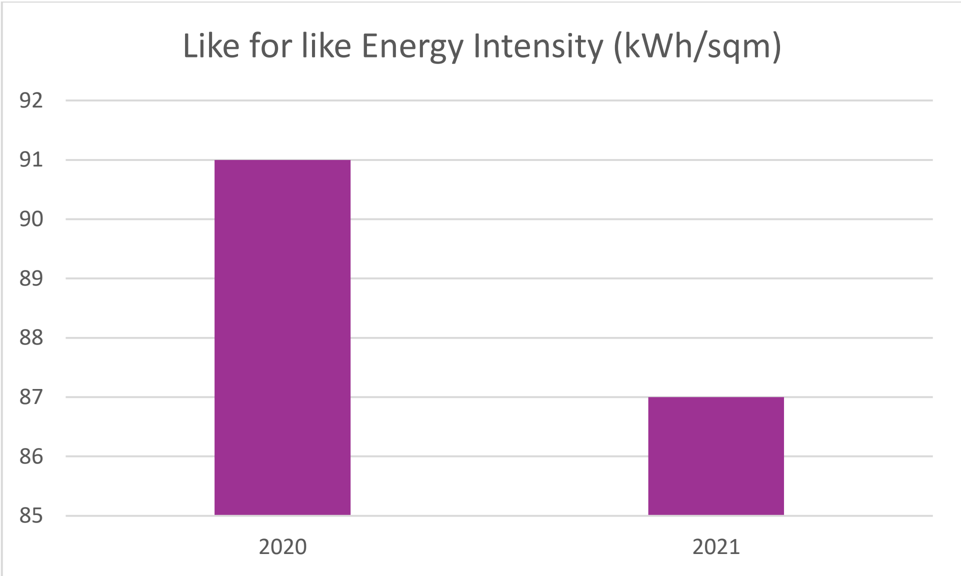
Looking at GHG emissions first. The graphs below show both absolute emissions and emissions intensity.

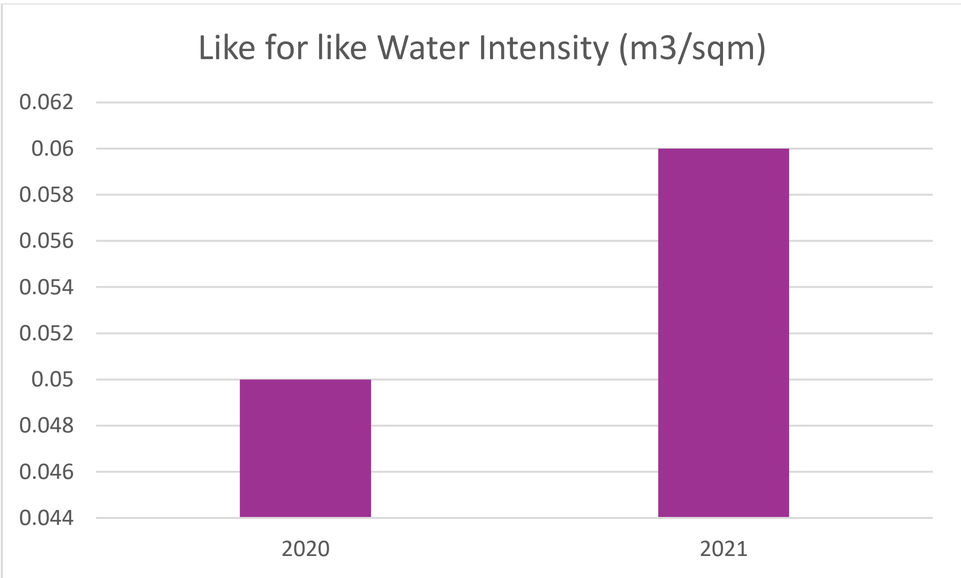




Overall, there is a 10% reduction in like-for-like GHG emissions. This is due to the reduction in energy consumption and improvements in the efficiency of the UK's electricity grid which means that each kWh used produces less CO2e emissions. While the bulk of the pandemic impact on these measures would be felt between 2019 and 2020 there is still likely to be some impact of lockdowns on consumption and the usage of properties, although given the large exposure to industrials this may not be as much of an issue as for a heavily office weighted portfolio. This would indicate that a reversion to previous patterns is less likely.

In terms of energy and water consumption the most informative measures are the like for like intensity of usage which is shown below.





For both these datasets information on commodities procured by the landlord is always reported and where tenants procure their own energy or water then this information is requested and included where possible.

The reduction in energy consumption over the year has largely been driven by the office assets, presumably driven by less intensive use due to increased levels of homeworking as well as specific initiatives.

The data in relation to water is subject to some uncertainty due to several metering and billing ussies and this is being investigated and a further update will be provided when these issues are resolved.

Some data on the way in which waste is disposed of are also available, however as there is only one year's data it is not being published at this stage as there is no context to understand whether it represents good or bad performance. The long-term target is to send 0% of waste to landfill with 80% to be recycled and 20% being recovered, although this can only apply to waste where the landlord has control of the disposal of waste.

Progress continues to be made at individual properties with the installation of solar PV and EV charging.

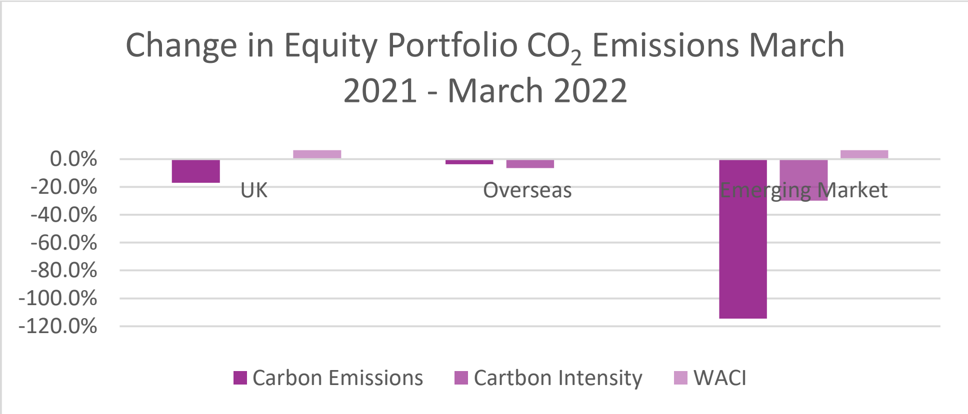
Another measure of the overall sustainability of the portfolio comes through sustainability certification. The most common type of certification is BREEAM and the Authority aspires through its agreed policy for its portfolio to achieve an overall level of Very Good or if built without certification which is often the case to be of an equivalent standard. Currently two properties representing 10.5% 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 and would need to be cost justified.

The Authority is also progressing the development of a significant addition to its holding in Edinburgh. This is aiming for BREEAM Very Good certification and considerable attention is being paid to minimising the embodied carbon in the construction and optimising energy efficiency. This includes an exploration of design options including timber frame construction, recycled concrete, on-site renewable power generation, and best in class insulation systems.

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.

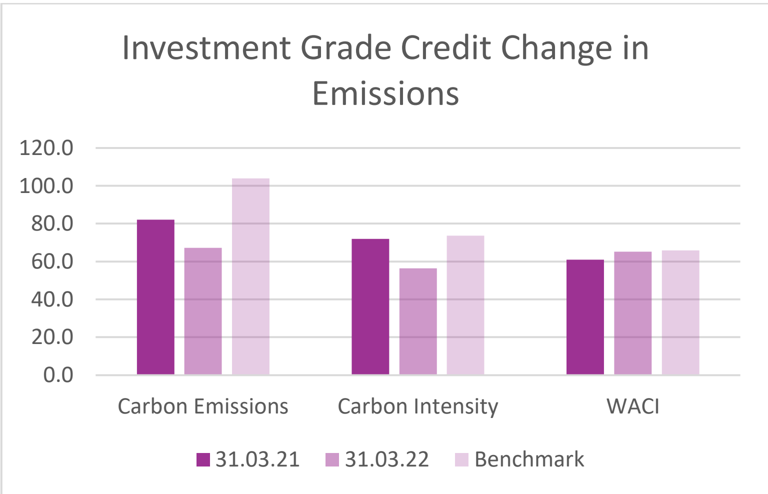
Progress to Net Zero

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. The graphs below show progress on the three equity portfolios and the investment grade credit portfolio over the last 12 months, with the initial data for the commercial property portfolio dealt with above.



Some of the movements indicated above are driven by changes in market values rather than necessarily by changes in the absolute level of emissions, for example the increase in the WACI in the UK portfolio is largely driven by the strong performance of Shell in the last quarter which was at least in part driven by the impact of the war in Ukraine on oil prices.

The position for Investment Grade Credit is given below compared to the previous March. It should be stressed that the availability and quality of data for fixed income assets is not as good as for equity assets. Again, there will be some technical impacts particularly on the WACI measure, although the position is better than benchmark on two of the three measures and virtually unchanged on the third. As more regular data is produced for this portfolio it will be possible to gain a better understanding of what is driving both emissions and change within the portfolio. In the meantime care needs to be taken that fund managers are not encouraged to make precipitate decisions on the basis of such data changes until a clear pattern has emerged.



In terms of broad progress towards the Net Zero Goal the trajectory implied by the Border to Coast commitment would bring the Overseas and UK portfolios to Net Zero around 2045 if delivered and the Emerging Markets portfolio could achieve Net Zero in terms of absolute emissions but not the other measures in the same timescale. The Investment Grade Credit portfolio would if the same trajectory is applied (which may not be a valid assumption for this asset class) be slightly above Net Zero at 2050. The Property portfolio has delivered a material reduction in emissions but the rate of progress will need to be increased if it is to contribute significantly to the overall goal.

This remains broadly positive in terms of the overall trend, although market factors are causing some negative movements in some of the metrics due to the positioning of certain of the portfolios. As has been stated previously there is a high risk of non-achievement of the 2030 Net Zero Goal without other changes in the investment approach, which will be examined as part of the review of the investment strategy which will be undertaken over the course of 2022-23.

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 its regular business meeting. Key issues address included the issues previously mentioned around the new UK Endorsement Board and the accounting standards regime, industrial livestock companies and the workplan for 2022/23. The workplan continues to focus on the transition to a low carbon economy, employment standards and supply chains and human rights with emerging themes around water risks which supports SYPA's specific priorities. The Treasurer's report indicated that the Forum continues to be in strong financial health with the pandemic having reduced costs in a number of areas. Following a further fund joining the Forum now has 85 of 98 funds as members (87%).

The Taskforce on Nature -related Financial Disclosures (TNFD) is a global initiative, with the aim of developing a risk management and disclosure framework for reporting and acting on nature -related risks and opportunities . March saw the release of the first beta version of its framework .

The framework consists of three main components ; key science -based concepts to enable users to define nature -based risks and opportunities ; disclosure recommendations that are in alignment with the Task Force on Climate -Related Financial Disclosures (TCFD) reporting framework ; and guidance on how nature can be incorporated into enterprise risk and portfolio management processes .

It is expected that the beta framework will be modified over the next 18 months in response to the experiences of testers, with the finalised framework scheduled for release in late 2023 . Border to Coast will be monitoring progress throughout the testing period as biodiversity loss is a key risk which is rising in prominence.

Climate Action 100+ published the second round of Net Zero Company Benchmark assessments during March. The results show some corporate climate progress against key climate indicators, but find much more action is required to support efforts to limit temperature rise to 1.5°C.

In line with the voting guidelines agreed across the Border to Coast partnership votes will be cast against company Chairs in high emitting sectors where the climate change policy does not meet our minimum standards. Where a company covered by the initiative fails the first four indicators of the Benchmark, we will also vote against the Chair of the board.

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.

Enhancing Sustainability Disclosure
The establishment of the International Sustainability Standards Board (ISSB), which was announced at COP26 in November 2021, was seen as a major step to a single set of global ESG reporting standards.

The ISSB has now launched a consultation on its first two proposed standards : one setting out general disclosure requirements and the other specifying climate -related disclosure requirements . The proposals build upon the recommendations of the TCFD and incorporate industry -based disclosure requirements, derived from the Sustainability Accounting Standards Board (SASB) standards.

Additionally, the US Securities and Exchange Commission (SEC) recently announced proposals requiring companies to disclose climate -related information in their filings. Proposed disclosures, which would be subject to third -party attestation, include an assessment of :

- Climate -related risks deemed likely to have a material impact on the company's operations .
- The actual and potential impacts of those risks on the company's strategy and business model
- The company's governance of climate -related risks and relevant risk management processes .

The proposed disclosure enhancements have attracted significant attention across the industry and with both the ISSB and SEC building upon the existing TCFD framework, it is hoped that a standardised approach to such disclosures will become mainstream .

IPCC Assessment Report
The Intergovernmental Panel on Climate Change (IPCC) recently finalised the second and third parts of the Sixth Assessment Report on climate change for 2022 : Impacts, Adaptation and Vulnerability and Mitigation of Climate Change. The latter made clear that greenhouse gas emissions must stop rising before 2025 if the world is to avoid the worst impacts of climate change. The COP27 summit, being held in Egypt later this year, is a crucial opportunity for governments to work together to make progress.

LGPS and Sharia Compliance
The LGPS Scheme Advisory Board commissioned legal advice in relation to the risks associated with an equality challenge around the issue of whether or not LGPS investments comply with sharia law. The initial question of whether LGPS itself is compliant with sharia is one to which different scholars have provided different answers. There is clearly a potential risk of challenge and the Board is considering what further advice and guidance might be necessary in light of the opinion received which has been published. This issue is a particular concern for some funds. SYPA has so far received one member enquiry on this issue.

Boycotts, Divestment and Sanctions
The proposed bill which was not introduced in the last session of parliament was included in the recent Queen's Speech and is now the responsibility of the Department for Levelling Up Housing and Communities (DLUHC) rather than the Cabinet Office and it is expected to be introduced at an early opportunity, although the timescale is not yet known.

LGPS Investment Related Consultations
There are a significant number of investment related consultations expected from DLUHC in the next 12 months covering:

- Pooling
- TCFD and Climate Risk Reporting
- “Levelling Up” Plans and Investment
- Boycotts Divestment and Sanctions Statutory Guidance (depending on progress of the Bill on this subject).

These are all substantial issues in their own right and may come as separate consultations although relevant regulations may be made in one set of amendments. Currently timing on all of these is likely to be “autumn” (with October suggested as the current target) and it would be expected that a 12 week consultation would be carried out. Given the potential scale of these consultations and of any responses it may be necessary to arrange specific time for members to discuss the Authority’s responses at additional meetings.

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.

Subject	**Regulatory Update – Administration Service**	**Status**	For Publication
Report to	Authority	**Date**	9 June 2022
Report of	Head of Pensions Administration		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Jason Bailey	**Phone**	01226 666431
E Mail	JBailey@sypa.org.uk		

1 Purpose of the Report

1.1 To update members on recent legislative developments that will impact on the administration service over the year ahead.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the ongoing projects linked to legislative change and the steps being taken within the administration service to manage the risks of wider service impacts.**

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3 Link to Corporate Objectives

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

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers). The Pensions Dashboard is likely to be of benefit to those of our deferred members who have lost track of their pension benefits.

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes. We will work with employers to minimise the additional demands of verifying membership data for current and former employees.

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 have implications for risks O2 (the impact of poor quality data) and O4 (Regulatory Compliance) of the Corporate Risk Register.

5 Background and Options

5.1 The purpose of this paper is to provide an update on recent legislative developments that will impact on the resources within the administration service and to summarise the mitigations that are in place to manage the associated risks of service impact.

Pensions Dashboards

5.2 The Pensions Dashboards Programme (PDP) is a Government initiative whose stated aim is to "*enable individuals to access their pensions information online, securely and all in one place, thereby supporting better planning for retirement and growing financial wellbeing*".

5.3 The PDP are responsible at a national level for creating what they are referring to as an ecosystem which will encompass dashboards themselves, data providers' find and view interfaces and the central digital architecture. This is perhaps best illustrated by the diagram in **Appendix A** which shows the overarching ecosystem and the link that SYPA would have to the ecosystem either directly or, most likely, via an Integrated Service Provider (ISP).

5.4 SYPA has the option to select their own ISP which does not have to be our existing administration system provider (Civica), though there is likely to be an advantage in doing so because they already have a detailed understanding of our data structure which should potentially provide a more seamless link to the individual member data and to our workflows. As part of the wider project, SYPA will nonetheless consider other options for an ISP.

5.5 On 31 January 2022, the DWP published a consultation on the draft Pensions Dashboards Regulations 2022 which suggested that funds would be required to connect to the ecosystem by April 2024 at the latest. Although the LGA have responded formally to the consultation on behalf of LGPS funds to suggest this would be difficult to achieve (partly because of the impact of McCloud – see later in this report) the current timescales set out by our system provider (should we wish to select them as our ISP) suggest that they intend to be ready to connect by April 2023, twelve months ahead of the deadline.

5.6 The Pensions Dashboard project is still in the relatively early stages as the ecosystem itself is still being developed but **Appendix B** sets out a simplified summary of the risks that have been identified to date and potential mitigations. These will continue to be updated as the project develops, though there are no specific areas of concern currently.

McCloud judgement

5.7 Existing members of the Authority will be aware of the McCloud judgement which is the court case that resulted in a government commitment in May 2021 to remedy age discrimination following the 2014 public sector scheme changes by extending the underpin protections for all qualifying members for the period from 1 April 2014 to 31 March 2022.

5.8 The Public Service Pensions and Judicial Offices Bill is still working its way through the parliamentary process so it seems likely that the LGPS specific legislation to be issued by the Government department responsible (DLUHC) will not be available until later this year. This was confirmed in a letter to administering authorities from DLUHC in March 2022 which did set out that the following remedy principles should be reflected in the 2022 actuarial valuation:-

• It should be assumed that the current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap.

• The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).

• Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner).

• Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.

• The underpin will consider when members take their benefit so they can be assured they are getting the higher benefit.

5.9 The administration system provider has been reluctant to commit fully to developing the remedy solution until the specific LGPS legislation has been passed but we have this month (May 2022) received their initial proposal setting out how they anticipate the administration system will be configured to handle the bulk processing. There do appear to be several potential omissions in the proposed solution which, if left unaddressed, would potentially result in significant volumes of manual calculations being required. We will be working with other LGPS funds who share the same software provider and, of course, with the software provider directly to agree resolutions for the omissions but for this reason the systems remedy is highlighted as the most significant current risk on the log included at **Appendix B**.

Stronger Nudge Requirements

5.10 The Government has introduced legislation, **effective from 1 June 2022,** to ensure that individuals are made aware of Pension Wise guidance as part of the application process for taking Defined Contributions (DC) savings. Although the LGPS is a Defined Benefit (DB) scheme, the provision for Additional Voluntary Contributions (AVCs) is a DC arrangement which means members looking to claim their AVC funds are caught by these new provisions.

5.11 The new provisions, loosely bracketed as “Stronger Nudge” requirements, require that funds must offer to book a Pension Wise appointment for members as part of the application process for taking in-house AVCs. Pension Wise is a government service from MoneyHelper that offers free, impartial pensions guidance about DC pension options. Members are able to opt out of taking Pension Wise guidance but they must make a specific election to do so. SYPA processes have been updated to reflect this new requirement.

Special Severance Payments

5.12 On 12 May 2022, the Government published statutory guidance on the making and disclosure of **Special Severance Payments** (SSPs) by local authorities. SSPs are payments made to employees outside of statutory, contractual or other requirements when leaving employment in public service. The new guidance sets out the decision making and reporting requirements that local authorities must follow in considering such payments.

5.13 Although there are no direct impacts from a pension fund perspective, there are certain payments under the LGPS that may constitute an SSP and local authorities will need to have regard to the guidance. Early retirement strain costs that must be paid by an employer when a member over the age of 55 is made redundant, retires on business efficiency grounds or flexibly retires **do not** constitute an SSP. However, if an employer awards extra pension or waives actuarial reductions in other circumstances this may be treated as an SSP.

6 Implications

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

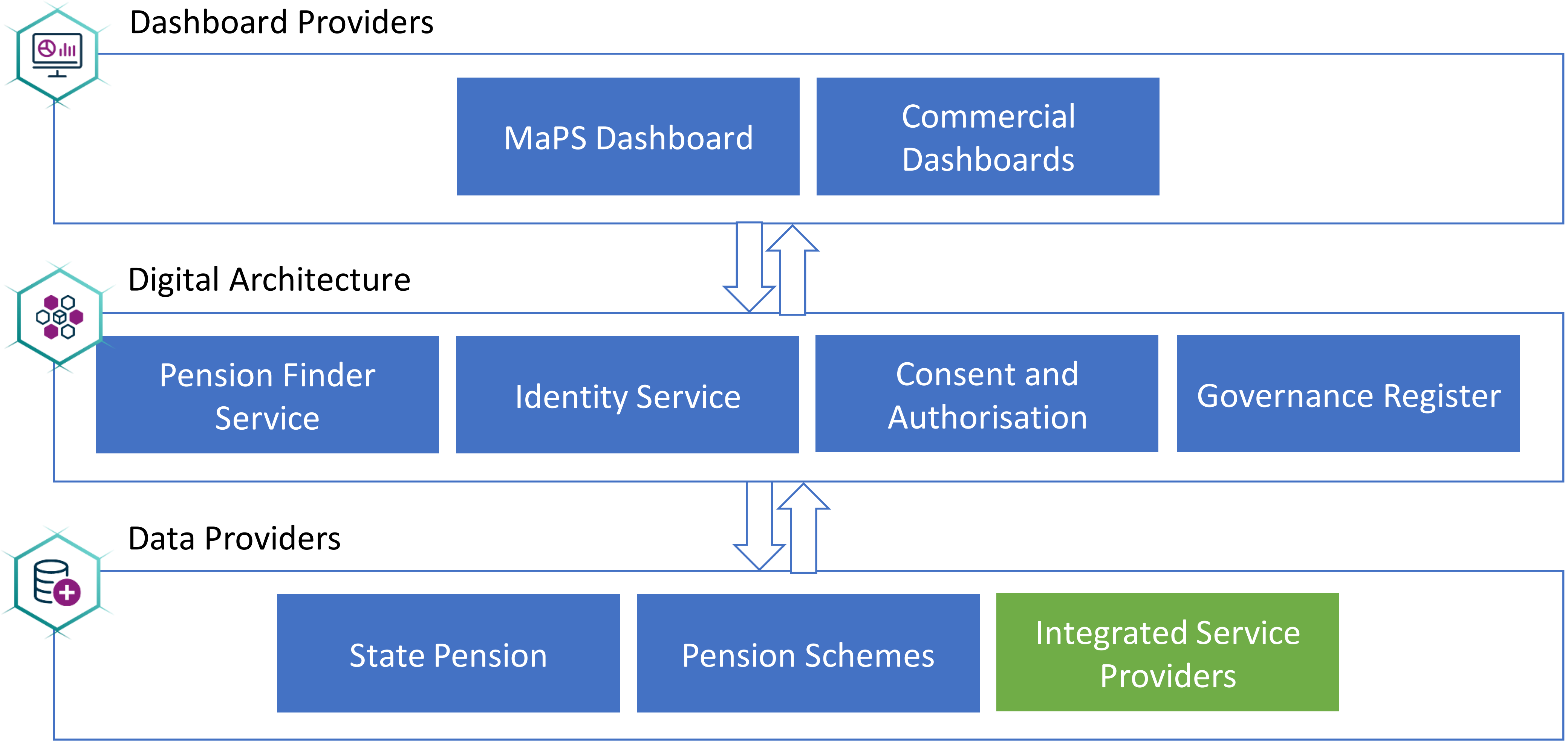
Financial	Additional IT/System costs will be incurred in meeting Dashboard and McCloud requirements but these are not yet available.
Human Resources	None directly – additional staff numbers were previously agreed ahead of McCloud implementation.
ICT	See Financial section.
Legal	This report is an update of regulatory provisions that SYPA must comply with.
Procurement	A procurement process may be required to select an Integrated Service Provider for the Dashboards programme.

Jason Bailey

Head of Pensions Administration

Background Papers	
Document	**Place of Inspection**
Pensions Dashboard Programme	UK Pensions Dashboards Programme | Homepage
Statutory Guidance on Special Severance Payments	Statutory guidance on the making and disclosure of Special Severance Payments by local authorities in England - GOV.UK (www.gov.uk)

The Pensions Dashboard Ecosystem



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Appendix A

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Project	Nature of Risk	Mitigations	Timescales	Current Level of Risk	Comments
Pensions Dashboards	Integrated Service Provider not identified in time to meet deadlines	Procurement likely to be possible via National LGPS Framework	Ongoing	Low	
	Integrated Service Provider not prepared in time to meet deadlines	Actively contributing to Joint Working Party set up by current system provider.	Ongoing	Low	ISPs looking to be ready to connect by April 2023, 12 months ahead of deadline.
		Review wider market options in case system provider costs are prohibitive or progress not as expected	June to August 2022	Low	
	Member Data not sufficiently cleansed for Dashboard	Data Improvement Plan already in place which addresses data components that will require to be reported to the Dashboard	Ongoing	Low	
	Significant increase in member enquiries for partial matches once Dashboards launched	Current proposal is that members will be directed to use our own online portal if there is a partial data match which should reduce the contact with our Customer Centre	After Go Live in 2023/2024	Low	
	Incorrect personal data reported back to individual through Dashboard	The Identity verification process remains the responsibility of the PDP so any GDPR issues will not be the fund responsibility	After Go Live in 2023/2024	Low	
	Data not transferred securely between SYPA and Ecosystem	Technical security specifications being agreed with funds	Ongoing	Low	
	Uncertainty over AVC requirements as current values not held	Clarification sought from DWP through consultation response	Ongoing	Low	
McCloud	Enabling legislation not issued in sufficient time to update systems to deliver remedy	DLUHC has suggested there will be a 12 month lead in time once the enabling legislation is issued.	September 2022?	Low	
	Systems Provider does not adequately develop accurate individual and processing solutions for **ACTIVE** members to accurately reflect assess underpin	Full solution included in initial proposal document received May 2022.	Ongoing	Low/Medium	Current Risk level as proposal just issued but engagement being undertaken.
		Collaborative testing working party to be set up with cross fund representation.	Ongoing		
	Systems Provider does not adequately develop accurate individual and processing solutions for **FORMER** members to accurately reflect assess underpin	Mitigations as above but this is a more significant risk as the initial proposal document issued in May 2022 does not provide a complete solution to avoid manual calculations for all past members. Engagement with system provider in collaboration with other LGPS funds to resolve shortfalls.	June to August 2022	Medium/High	Current Risk level as proposal just issued but engagement being undertaken.
	Internal resourcing insufficient to handle remedy cases	Authority already approved appointment of three additional staff to prepare for McCloud work. Impact will be dependant on effectiveness of system solution.	September to December 2022	Low/Medium	
	Insufficient working hours and breaks data provided by employers.	SYPA continued to collect details of working hours beyond 2014 when CARE scheme introduced.	June to December 2022	Low	
		Monthly data collection since 2018 means more accurate data collection than yearly collection exercises.		Low	
		DLUHC requested to provide guidance to cover scenarios where data no longer available.		Low	
	Members not sufficiently informed about McCloud progress leading to complaints.	Updates and information inlcuded routinely in Newsletters and Annual Benefit Statements; Members aware that McCloud judgement will have lower impact than with other public service schemes.		Low	

Appendix B

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Subject	**Consultation on Funding Strategy Statement (FSS)**	**Status**	For Publication
Report to	Authority	**Date**	9 June 2022
Report of	Head of Pensions Administration		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Jason Bailey	**Phone**	01226 666431
E Mail	JBailey@sypa.org.uk		

1 Purpose of the Report

1.1 To gain approval to consult informally with employers in the fund on the proposed changes to the Funding Strategy Statement (FSS).

---

2 Recommendations

2.1 Members are recommended to:

a. **Approve the early consultation with employers on the key changes proposed to the principles and policies contained within the Funding Strategy Statement (FSS)**

---

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. The changes proposed in relation to funding of admission agreements are designed to assist employers in handling the pensions implications of outsourcing services.

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes. Early consultation on proposed changes provides employers with increased opportunity to engage in understanding the principles behind the funding arrangements.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times. The FSS is a key representation of the fund's approach to achieving long term sustainability and stability of contributions.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report impact the risks around affordability of employer contributions and the level of investment risk set out in the Corporate Risk Register.

5 Background and Options

5.1 The purpose of the Funding Strategy Statement (FSS), as set out by the (then) Department for Communities and Local Government (DCLG) back in 2003 is "to establish a clear and transparent fund specific funding strategy which would identify how employers' pension liabilities are best met going forward".

5.2 The FSS is a statutory requirement under the LGPS Regulations and must be kept under review and subject to consultation where changes are being made. In producing the FSS, funds must have regard to guidance published by CIPFA as well as to the Investment Strategy Statement. For this reason, and because of the nature of the content, the FSS is subject to review as part of the triennial valuation process.

5.3 Historically, the draft FSS would be produced and issued for consultation towards the end of the calendar year once the provisional valuation results were available. However, the recent change of fund actuary affords an opportunity to revise the approach and to reflect recent experience of working with employers which suggests that some revisions to the FSS would be beneficial and that employers would appreciate early engagement on any changes being proposed.

5.4 Officers, in consultation with the actuary, have been reviewing the existing FSS and the actuary has produced a summary of the key principles contained within the FSS and the current expectation of how this may change as part of the 2022 review, subject to consultation. The summary document is attached at **Appendix A**.

5.5 As stated in the supporting document, there are no fundamental changes planned to the FSS but there a number of developments in line with the evolution of the funding strategy which it is intended to draw out as part of a consultation with employers:-

i) **Funding Assumptions**. These are broadly in line with the valuation assumptions approved by the Authority in March 2022 but are represented in the FSS for transparency.

ii) **Setting Contributions**. These principles are broadly in line with the existing FSS in terms of the desire to achieve stability of contributions whilst reducing deficits and allowing some flexibility to reflect individual employer circumstances.

iii) **Other Funding Principles.** At the last valuation, the majority of employers chose to contribute towards the costs of meeting the expected costs of the McCloud remedy. Now that the legislation giving effect to the remedy is moving forward the costs will form a part of the overall liability assessment of employers.

5.6 The summary document draws attention to two new elements that are intended to be reflected in the updated FSS. The first is simply reflecting wider developments in the approach to climate change risk and these will continue to be covered extensively in other papers presented in relation to investment approach. The second is the proposed introduction of “pass through” arrangements for new employer admissions created from outsourcings.

Pass Through

5.7 Traditionally, any new employer (contractor) joining the fund via an admission agreement following the outsourcing of a service from a local authority or academy trust would have its own assets and liabilities determined independently based on the membership profile of the transferring staff. Employer contribution rates are re-assessed as part of the triennial valuation (usually resulting in a change in contribution) and a further assessment is then carried out when the outsourcing comes to an end (e.g. if the service is re-tendered or brought back in-house) which can lead to a deficit or surplus payment being required.

5.8 Feedback from outsourcing employers and from contractors suggests that the potential cost impacts under the existing admission agreement arrangements are often difficult to predict and this can lead to complexities with service contracts; these can be particularly disproportionate where the outsourcings may involve just a small number of staff transferring employment. A “pass through” arrangement is one where a contractor applying for admitted body status simply pays the same primary contribution rate as the outsourcing (guarantor) employer who is letting the contract. The Fund is not required to separate out the assets and liabilities of the transferring staff as the outsourcing employer assumes responsibility for these.

5.9 The table below outlines the main potential advantages and drawbacks of a “pass through” arrangement compared with the more traditional agreement. As highlighted, there is a greater level of risk borne by the outsourcing employer though it is likely that this would be modest in the context of the overall funding risk for their entire scheme membership and would likely be offset by the advantages gained elsewhere.

“Pass Through” Advantages	“Pass Through” Drawbacks
Contractor pension cost certainty when bidding for new contracts creates an even playing field for procurement	Higher funding risk for outsourced staff is borne by outsourcing employer
Reductions in actuarial fees	
Avoids deficit or surplus payments at contract end	
Flexibility retained for contractors to meet certain extra costs e.g. early retirements	
No bond requirement – can be expensive to acquire	

5.10 Although the proposal would be to make “pass through” arrangements the default position for any new admission agreements, outsourcing employers would still have the option to elect not to apply “pass through” and retain the existing arrangements provided that both the contractor and the outsourcing employer had confirmed they understood the implications. This approach is consistent with that increasingly being adopted by other LGPS funds.

5.11 The intention is to consult on a separate “pass through” policy, albeit as part of the wider FSS consultation, so that employers have the opportunity to consider the principles involved since this does mark a step change from the arrangements which have been in place for many years. Informal discussions with employers to date suggest the greater certainity provided by "pass through" would be welcomed.

6 Implications

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

Financial	None directly, though the principles set out in the FSS do contribute to the assessment of employer contribution levels.
Human Resources	None.
ICT	None.
Legal	Funds have a statutory obligation to consult on changes to the Funding Strategy Statement.
Procurement	None.

Jason Bailey

Head of Pensions Administration

Background Papers	
Document	**Place of Inspection**
Briefing paper on considerations for pass through arrangements produced by one of the LGPS actuarial firms	Pass-through arrangements - Briefings | Barnett Waddingham (barnett-waddingham.co.uk)

South Yorkshire Pension Fund – 2022 FSS review

Purpose and scope

This paper has been commissioned by and is addressed to the South Yorkshire Pensions Authority ("the Authority"), the Administering Authority to the South Yorkshire Pension Fund ("the Fund"). Its purpose is to set out how the key principles of the Funding Strategy Statement ("FSS") may change following the formal triennial review of this alongside the 2022 valuation of the Fund.

Process and consultation

The current FSS requires a formal review of this document every three years and the Authority is currently carrying out this review with support from the Fund Actuary.

The revised FSS will be available in October/November 2022 and a formal consultation period will follow, during which employers will be able to comment on the funding strategy set out (which will apply at the 2022 valuation) and associated policies.

Fundamental changes to the FSS are not expected following the current review. Changes made will be in line with the recent evolution of funding strategy i.e. those required to better manage risk in the Fund and improve the employer experience.

This document sets out the key principles and policies contained in the current FSS and how these are expected to change as a result of this review. I understand that this paper will be shared with employers as part of an initial consultation on the changes in FSS principles.

Key funding principles and suggested changes

The tables below set out the key principles contained in the FSS, and the current expectation with regards to how these may change as part of the 2022 review.

Assumptions

Principle	Current position	Change
Solvency objective	Achieve a 100% solvency level over a reasonable time period.	No change.
Prudence	A prudent approach to meeting solvency target is set.	Prudence will be explicitly measured at the 2022 valuation by measuring the likelihood of the certified contribution rates being sufficient to ensure that benefits can be paid in the future. A minimum likelihood of success (based on Hymans Robertson's market assumptions) of 70% will apply. A higher threshold may apply for certain employers, specifically where there is a weak employer covenant.
Discount rate	Based on the expected return on the Fund assets using the long-term investment strategy. Discount rates are set relative to CPI, separately for pre-retirement (CPI plus 1.5%) and post retirement (CPI plus 2.35%))	A single discount rate will be set based on the level of returns expected to be achieved on the Fund assets (based on the long-term strategy) with a 70% likelihood of success. This leads to a discount rate assumption equal to the risk-free rate plus 2.3% per annum, which is broadly equivalent to that set under the previous funding strategy.

Consumer Price Inflation (CPI) – pension increase rate	Equal to long-term RPI less 1.0% per annum	A revised approach to recognise the distortions caused in the market price of RPI by the planned harmonisation of RPI with CPIH from 2030. The CPI assumption is expected to be higher than that set at the 2019 valuation due to a general increase in inflation expectations
Salary growth	CPI plus 1.25% per annum (which includes allowance for promotional increases)	CPI plus 0.6% per annum, plus a separate age and salary related allowance for promotional increases.
Baseline longevity	Standard mortality tables published by the actuarial profession's Continuous Mortality Investigation (CMI) group adjusted to reflect the characteristics of Fund members	Based on Club Vita tables allowing for the specific characteristics of each individual member. In effect, a separate mortality assumption is set for each member of the Fund based on relevant factors (e.g. lifestyle, affluence etc).
Longevity improvements	Based on the latest future improvements tables provided by the CMI.	No change in approach, leading to the use of the CMI 2022 tables adjusted to reflect expectations of future experience.

Setting contributions

The focus at the 2022 valuation will be in setting total contribution rates that are sufficient to lead to the employer being fully funded at the end of their appropriate time horizon.

Principle	Current position	Change
Stability for long term secure employers	Desire for as nearly a constant rate as possible	An explicit contribution stability mechanism will be set for each of the long-term secure employers in the Fund (typically the Scheduled Bodies). The mechanism will specify how contributions rates can vary in future by defining a maximum increase/decrease that can apply from one year to the next.
Deficit recovery periods	Maximum periods defined in current FSS with an expectation that these would generally reduce by three years each future valuation	The starting point will be for time horizons at the 2022 valuation to be set in a consistent manner to that defined in the current FSS. Shorter time horizons may apply in certain circumstances depending on the assessed employer covenant strength and in situations where employers are heading to a cessation event.
Phasing of contribution rates	If material increases in contribution rates are required, these increases may be phased in over the three-year period of the R&A.	No change

Reductions in contribution rates	Reduction in contribution rates will not be permitted if the employer is in deficit at the 2022 valuation.	No change.
Delaying introduction of new contribution rates	Where the employer's year-end is not 31 March, the new contributions will be permitted to commence from the beginning of the new financial year (following a formal request from the employer).	New contributions to apply from 1 April 2023

Other funding principles and policies

Principle	**Current position**	**Change**
McCloud	Employers have the choice of paying higher contributions to meet the expected cost of rectifying benefits for the McCloud remedy	Allowance for the McCloud remedy will be included in the measurement of the past service liabilities and (where appropriate) future service contribution rates, for all employers as a matter of course. Therefore, no choice element beyond 2023, and employers who chose to pay the higher rate for the past three years will (all other things being equal) be in a better place than those who didn't.
Contingent assets	The Authority will recognise contingent assets in place when agreeing funding plans with employers	No change
Prepayments	All employers may pre-pay secondary contributions Certain large employers may be permitted to pre-pay Primary contributions (subject to a check at the end of the year to make sure that there has been no underpayment – following which a 'top-up' payment may be required).	No change
Cessations	Policy for calculating cessation debts and exit credits, and for allowing Deferred Debt Arrangements is included in the existing FSS.	This is being reviewed by the Authority and any changes will be set out once the revised draft FSS in available in quarter 4 2022.
Covenant assessment	The Fund will make an objective assessment of covenant strength for each employer	No change

New academies	The approach taken to determine starting asset shares and contribution rates is set out in the existing FSS	No change to the asset allocation approach is expected.
Ill health retirement strains	A captive insurance arrangement is in place for certain (small) employers in the Fund where ill health strains are effectively pooled. All other (larger) employers meet the cost of their own ill health experience.	No changes are expected, but the Authority will carry out a review of the captive insurance arrangement and experience since the 2019 valuation prior to considering if changes are necessary.

New policies

Principle	**Details**
Climate change risk	The Authority will develop a policy for measuring and monitoring the risks associated with climate change, including the effect on funding and investment outcomes.
Pass though	The Authority is reviewing the admissions policy with a view to facilitating pass though for all new admissions created from local authority and academy outsourcings.

Reliances and limitations

This paper has been prepared for the South Yorkshire Pensions Authority for the purpose described above. It has not been prepared for use for any other purpose and should not be so used.

This paper may be shared with participating employers for consultation purposes but should not be considered as advice to the employers.

This paper should not be disclosed to any other third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Douglas Green FFA– Fund Actuary

Steven Scott FFA – Fund Actuary

May 2022

For and on behalf of Hymans Robertson LLP

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Annual Report of the Audit Committee**	**Status**	For Publication
Report to	Authority	**Date**	9th June 2022
Report of	Corporate Manager - Governance		
Equality Impact Assessment	Required Not Required	Attached	Yes No
Contact Officer	Gill Richards Governance Officer	**Phone**	01226 666412
E Mail	grichards@sypa.org.uk		

1 Purpose of the Report

1.1 To allow members of the Authority to consider the annual report of the Audit Committee as part of the process of gathering assurance for the production of the Annual Governance Statement.

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2 Recommendations

2.1 Members are recommended to:

a. Receive and comment on the Annual Report of the Audit Committee

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3 Link to Corporate Objectives

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

Effective and Transparent Governance

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

The Audit Committee fulfils an important role in overseeing the provision of assurance in relation to the security and effectiveness of the Authority's operations and it is good practice for the Committee to produce a publicly available report on its work.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report directly link to the identified risks around the control environment.

5 Background and Options

5.1 In line with the requirements of the governance standards for local authorities the Authority maintains an Audit Committee, which meets throughout the year and received reports from both internal and external auditors and from officers in relation to its terms of reference which reflect the relevant professional standards. It is recognised good practice for the Committee to publish an annual report on its work. This is attached at Appendix A.

5.2 The Committee's report together with the papers considered at meetings of the Committee provide part of the evidence base for the production of the Annual Governance Statement.

6 Implications

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

Financial	None directly
Human Resources	None
ICT	None
Legal	None
Procurement	None

Jo Garrison

Corporate Manager (Governance)

Background Papers	
Document	**Place of Inspection**

SOUTH YORKSHIRE
PENSIONS AUTHORITY

Audit Committee Annual Report 2021/22

March 2022

Foreword

I am pleased to present the second annual report of the Authority's Audit Committee covering the Committee's activity during the 2021/22 financial year. Reporting on the Committee's work in this way contributes to the process of assurance gathering which is used to produce the Authority's Annual Governance Statement and demonstrates the robustness of the overall governance arrangements that are in place.

Councillor Garry Weatherall

Chair

Audit Committee – South Yorkshire Pensions Authority

1. INTRODUCTION

This report is produced in order to provide stakeholders with information on the work of the Committee over the 2021/22 Municipal Year and to support the process of assurance gathering required in order to produce the Authority's Annual Governance Statement.

It outlines the Committee's:

- Role and responsibilities.
- Membership and attendance; and
- Work programme.

2. COMMITTEE INFORMATION

Audit Committee Role and Responsibilities

The Committee's terms of reference are set out in the Authority's constitution and are as follows:

To fulfil the following core audit committee functions:

a) Consider the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.

b) Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.

c) Be satisfied that the Authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

d) Approve (but not direct) internal audit's Charter and annual plan.

e) Monitor performance against internal audit's Charter and annual plan.

f) Review summary internal audit reports and the main issues arising and seek assurance that action had been taken where necessary.

g) Receive the annual report of the Head of Internal Audit.

h) Consider the annual reports of external audit and inspection agencies.

i) Ensure that there are effective relationships between internal audit and external audit, inspection agencies and other relevant bodies, and that the value of the process is actively promoted.

j) Review financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.

k) To oversee the production of and approve the Authority's Annual Governance Statement.

l) To review and approve the annual Statement of Accounts and the Authority's Annual Report, focusing on:

- The suitability of, and any changes in accounting policies.

- Major judgemental issues e.g. provisions.

m) To receive and agree the response to the external auditor's report to those charged with governance on issues arising from the audit of the accounts, focusing on significant adjustments and material weaknesses in internal control reported by the external auditor.

Monitor the Authority's risk register and annual governance action plan, reporting issues of concern to the full Authority.

Membership

The Committee's membership at the end of March 2022 was:

Councillor G Weatherall (Chair)

Councillor S Clement-Jones

Councillor D Fisher

Councillor D Nevett

Councillor C Rosling-Josephs

Councillor N Wright

In addition, the three observers nominated to the Authority by the recognised trade unions are entitled to attend and participate in meetings of the Committee. During the year these representatives were:

N Doolan-Hamer (Unison)

D Patterson (Unite)

G Warwick (GMB)

Committee Meetings and Attendance

The Committee held three meetings during the municipal year (July 2021, October 2021 and March 2022). The business conducted reflected the terms of reference and the pattern of work of the Authority's Internal and External Auditors. The schedule of Members' and Officers' attendance is attached as Appendix 1.

During the year Councillor Alan Law who had been appointed by the Authority to Chair the Committee had to resign due to ill health and was replaced by Councillor Garry Weatherall.

Good practice guidance suggests that the Chief Financial Officer should attend regularly, and that the Monitoring Officer and other senior officers should contribute as appropriate. The actual attendance recorded demonstrates that this was achieved.

3. COMMITTEE WORK PROGRAMME AND OUTCOMES

The Board maintains a broad programme of work for its main areas of activity. The reports received during 2021/22 are shown in Appendix B; the outcomes of the Committee's work in relation to these are summarised below. The "boxed" bullet points in *italics* are the core functions from the CIPFA guidance; the details below each box identify how the Committee has achieved its responsibilities.

3.1 Risk Management and Internal Control

- *Considering the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements.*
- *Seeking assurances that action is being taken on risk-related issues identified by auditors and inspectors.*
- *Being satisfied that the Authority's assurance statements, including the Annual Governance Statement properly reflect the risk environment and any actions required to improve it.*

The Committee has:

- Completed the Annual Review of the Authority's Risk Management Framework in October 2021
- Received regular progress reports from the Head of Internal Audit on internal control matters.
- Received regular reports on progress against audit recommendations.
- Considered the results of the review of internal control and internal audit for 2020/21.

3.2 Internal Audit and External Audit

- *Approving (but not directing) Internal Audit's strategy and plan, and monitoring performance.*
- *Reviewing summary Internal Audit reports and the main issues arising and seeking assurance that action has been taken where necessary.*
- *Receiving the annual report of the head of Internal Audit.*
- *Considering the reports of external audit and inspection agencies.*
- *Ensuring that there are effective relationships between Internal Audit and external audit, inspection agencies and other relevant bodies, and that the value of the process is actively promoted.*

The Committee has:

Internal Audit:

- Agreed the Internal Audit Strategy and Annual Plan for 2022/23.
- Received and considered Head of Internal Audit's Annual Report for 2021/22, including the opinion on the Authority's internal control arrangements.
- Received and considered regular reports from the Head of Internal Audit on the Internal Audit Team's progress against the annual plan, including summaries of the reports issued and management's response.

Appointed External Auditor (see also Accounts below):

- Received reports from Deloitte on their Audit Plans for the Authority and their Annual Report which was recommended to the Full Authority for consideration.

- Received regular progress reports from Deloitte
- Approved Deloitte's fee for the financial year 2020/21.

3.3 Accounts

- *Reviewing the financial statements, the external auditor's opinion and reports to members, and monitoring management action in response to the issues raised by external audit.*
- *Overseeing the production of, and approving, the Authority's Annual Governance Statement.*
- *Overseeing the production of, and approving, the Authority's Annual Statement of Accounts, focussing on:*
  - *the suitability of, and any changes in, accounting policies;*
  - *Major judgemental issues e.g. provisions.*
- *Receiving and agreeing the response to the external auditor's report to those charged with governance on issues arising from the audit of the accounts, focussing on significant adjustments and material weaknesses in internal control reported by the external auditor.*

The Committee has:

- Overseen the production of, and approved the Authority's Annual Governance Statement 2020/21;
- Reviewed and approved the Authority's Statement of Accounts and Annual Report and letter of representation for 2020/21;
- Received and approved Deloitte's Annual ISA 260 Report 2020/21 and agreed the responses to the recommendations made.

3.4 Working Arrangements

Members considered and agreed the Board's Annual Report for 2020/21 which was then published on the Authority's website.

The Board, as part of considering the Annual Report, revisited the self-assessment of its position against the best practice guidance and considered the extent to which its arrangements remained robust.

APPENDIX A

MEMBER/OFFICER ATTENDANCE AT AUDIT COMMITTEE MEETINGS

Member/Officer	29 July 2020	21 October 2020	3 March 2021
Cllr A Law	Note 2		
Cllr G Weatherall		✓	✓
Cllr S Clement-Jones	✓	✓	Note 1
Cllr D Fisher	✓	✓	✓
Cllr D Nevett	Note 3	✓	✓
Cllr C Rosling-Josephs	✓	✓	Note 1
Cllr N Wright	Note 1	✓	✓
N Doolan-Hamer	Note 1	✓	✓
D Patterson	Note 1	Note 1	Note 1
G Warwick	✓	Note 1	✓
Director	✓	✓	✓
Head of Finance and Corporate Services (Deputy Treasurer)	✓	✓	✓
Treasurer (s73 Officer)	✓	Note 1	Note 1
Monitoring Officer	✓	✓	Note 1
Deputy Clerk	Note 1	Note 1	✓
External Audit (Deloitte)	✓	Note 1	✓
Internal Audit (Barnsley MBC)	✓	✓	✓

Notes

1. Apologies
2. Apologies – Cllr M Havard substituted
3. Acted as Chair for the meeting

Councillor Law resigned from the Authority due to ill health and was replaced by Councillor Weatherall.

APPENDIX B

COMMITTEE ACTIVITY

Function/Issue	**29 July 2020**	**21 October 2020**	**3 March 2021**
Risk Management			
Annual Review of the Risk Management Framework		Noted	
Governance and Internal Control			
Data Protection Officer's Annual Report			
Annual Review of the Governance Compliance Statement		Approved	
Progress on delivering the 2020/21 Annual Governance Statement Action Plan			Noted
Progress on Implementation of Audit Recommendations	Noted	Noted	Noted
Annual Procurement Report			Noted
Internal Audit			
Progress Report	Noted	Noted	Noted
External Quality Assessment		Noted	
Annual Report 2020/21	Noted		
Internal Audit Charter	Noted		
Internal Audit Plan 2022/23			Noted
External Audit			
Auditor Appointment Process		Recommended action to the Authority	
ISA 260 Report 2020/21	Noted		
Annual Audit Report 2020/21		Noted and recommended to the Authority	
External Audit Plan 2021/22			Noted
Accounts			
Audited Annual Report and Statement of Accounts 2020/21	Approved		
Letter of Representation	Approved		
Board Working Arrangements			
Audit Committee Annual Report 2021/22			Approved

(The term "Noted" is used to include resolutions to note and to receive reports).

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Annual Report of the Local Pension Board**	**Status**	For Publication
Report to	Authority	**Date**	9th June 2022
Report of	Corporate Manager - Governance		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Gill Richards Governance Officer	**Phone**	01226 666412
E Mail	grichards@sypa.org.uk		

1 Purpose of the Report

1.1 To allow members of the Authority to consider the annual report of the Local Pension Board, in line with the LGPS Governance Regulations and as part of the process of gathering assurance for the production of the Annual Governance Statement.

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2 Recommendations

2.1 Members are recommended to:

a. Receive and comment on the Annual Report of the Local Pension Board

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3 Link to Corporate Objectives

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

Effective and Transparent Governance

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

The Local Pension Board fulfils an important scrutiny function and provides assurance that the Authority is effectively discharging its role as Scheme Manager. The LGPS Regulations require the Authority to receive the Board's Annual Report, which provides part of the evidence base in terms of assurance to support the Annual Governance Statement.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report directly link to the identified risks around the control environment and the effective operation of both the Board and the Authority.

5 Background and Options

5.1 The Local Pension Board is constituted in line with the LGPS regulations and is made up or equal numbers of employee and employer representatives supported by an Independent Adviser. The Board's role is, in effect, to scrutinise the way in which the Authority performs its role as Scheme Manager under the LGPS regulations. The Board also has specific responsibilities in terms of the reporting of breaches to the Pensions Regulator. In general the Board concentrates on pension administration issues and performance, although it has also, quite properly, paid some attention to aspects of the investment oversight process and to investment costs and performance.

5.2 The LGPS Regulations require that the Board produce an Annual Report for consideration by the Authority and this is attached at Appendix A. If present the Chair of the Board will present the report. In addition to being published with the papers for this meeting the report will be incorporated in the Authority's annual report.

5.3 The Board's report provides an important part of the evidence base used in preparing the Annual Governance Statement.

6 Implications

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

Financial	None directly
Human Resources	None
ICT	None
Legal	None
Procurement	None

Jo Garrison

Corporate Manager (Governance)

Background Papers	
Document	**Place of Inspection**

SOUTH YORKSHIRE PENSIONS AUTHORITY

South Yorkshire Local Pension Board Annual Report

2021/22

Foreword

Welcome to the annual report of the South Yorkshire Local Pension Board ('the Board').

The Board seeks to assist the South Yorkshire Pensions Authority to maintain effective and efficient administration and governance. It comprises equal numbers of representatives of scheme members and employers.

We have also continued to engage with other Local Pension Boards on matters of mutual interest through meeting with the Chairs of the other Boards within the Border to Coast Partnership.

On behalf of the Board, I would like to thank the staff at the Authority for continuing to deliver the pensions service throughout the pandemic. Your efforts are very much appreciated by the Board.

Thank you to members of the Board for your continued diligence, support and commitment

Garry Warwick, Chair

Role of the Local Pension Board

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

- Secure the effective and efficient governance and administration of the LGPS for the South Yorkshire Pension Fund;
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Local Pension Board or person to be appointed to the Local Pension Board does not have a conflict of interest;
- Ensure the South Yorkshire Pension Fund effectively complies with the Code of Practice on the Governance and Administration of Public Service Pensions Schemes issued by the Pensions Regulator and is effectively managed and administered in compliance with the Code.

Membership during the Year

There were no changes to the Board's membership over the year. Membership was as follows:

Name	Date of joining	Nominated by/ Representing	Term of Office (to)
Employee Representatives			
Nicola Doolan-Hamer	July 2015	Unison	June 2024 (3rd term end)
Garry Warwick (Chair)	July 2015	GMB	June 2024 (3rd term end)
Daniel Gawthorpe	June 2020	Unite	May 2023 (1st term end)
Andrew Gregory	July 2019	Selected from active, deferred and pensioner members	June 2022 (1st term end)
David Webster	Oct 2019		September 2022 (1st term end)
Employer Representatives			
Nicola Gregory	Jan 2018	Academies	December 2023 (2nd term end)
Steve Loach	Oct 2019	Local Authority (Senior Manager)	September 2022 (1st term end)
Rob Fennessy (Vice Chair)	April 2019	Other Large Employers (South Yorkshire Police)	March 2025 (2nd term end)
Councillor Mike Chaplin	July 2019	Local Authority	2 yr District Council appointment (term extended to 2023)
Vacancy		Local Authority	
Independent Adviser			
Clare Scott	Oct 2019		Sept 2022 (1st term)

Meeting Attendance

Member and employer representatives give their time freely. Attendance at the Board's meetings through the year was as follows:

	15 July 2021	14 Oct 2021	27 Jan 2022	22 Mar 2022 (Informal)	28 Apr 2022	% Attendance (formal meetings)
Employee Representatives						
Nicola Doolan-Hamer	✓	x	✓	✓	✓	75%
Garry Warwick	✓	✓	✓	✓	✓	100%
Daniel Gawthorpe	✓	✓	x	✓	x	50%
Andrew Gregory	✓	✓	✓	✓	✓	100%
David Webster	✓	✓	✓	✓	✓	100%
Employer Representatives						
Nicola Gregory	✓	x	✓	x	✓	75%
Steve Loach	x	x	x	x	x	0%
Rob Fennessy	x	✓	✓	✓	✓	75%
Mike Chaplin	✓	✓	✓	✓	✓	100%
Independent Adviser						
Clare Scott	✓	✓	✓	✓	✓	100%

Work of the Board 2021/22

The Board held four formal meetings during the year. A Work Programme provides the basis for the agendas for meetings and includes a range of issues covering both pensions administration and governance:

Pensions Administration:

- **Pensions Administration Performance** – The Board received quarterly administration performance reports.
- **Breaches Complaints and Appeals -** The Board received quarterly reports on breaches, complaints and appeals.
- **Data Quality Improvement** – The Board monitored progress on the Data Quality Improvement Plan.
- **Actuary** – The Board were updated on the appointment of a new Actuary for the Fund and the impact on service to employers.

Governance:

- **Decisions of the Authority -** Members of the Board receive all agenda papers issued to Members of the Pensions Authority and Board members are able to observe meetings of the Authority.
- **The Constitution** – The Board approved revisions to its Constitution following the annual review.
- **The Pensions Regulator** – The Board was updated on current levels of compliance with TPR Code of Practice 14 and discussed the regulator's consultation on a single combined code.
- **Risk Management** – Considered the Risk Register and the wider risk management framework.
- **Annual Report and Accounts** – Reviewed the Authority's Annual Report and Accounts.
- **Governance Compliance Statement** – Reviewed the Authority's revised Governance Compliance Statement.
- **Governance Review** –The Board considered updates on the actions from the governance review undertaken in 2020 and welcomed the decision to establish a dedicated governance team within the Authority.
- **Investment Pool Governance -** The Board considered a review of the Border to Coast Pensions Partnership**.**
- **Regulatory Changes** – The Board has been kept informed of the potential impact of regulatory changes such as the McCloud Judgement and the exit cap.

Learning and Development:

- During the year, the Board welcomed the Authority's new Learning and Development Strategy including its extension to Board members and the commitment to progress knowledge and training needs assessments for individual members. Early in 2022, all Board members completed a knowledge assessment.
- The Board have requested that training records of both the Authority and Board members should be reported to the Board on a regular basis to demonstrate compliance with the Learning and Development Strategy.
- During the year, Board Members have attended the following training events:

Event	Date	M Chaplin	N Doolan-Hamer	R Fennessy	D Gawthorpe	A Gregory	N Gregory	S Loach	G Warwick	D Webster
PLSA Local Government Conference	18-19.05.21									
Barnett Waddingham/CIPFA LPB Members' Annual Event	23.06.21		✓	✓		✓	✓		✓	
Border to Coast Seminar – Investment Issues	06.09.21									
SYPA LGPS Seminar	16.09.21	✓	✓	✓	✓				✓	✓
Barnett Waddingham Governance Update	28.09.21			✓						✓
CIPFA LPB Members Seminar	Sept/Oct 2021		✓	✓					✓	✓
Barnett Waddingham – Overview of the LGPS	28.10.21					✓				
Understanding Impact	28.10.21	✓		✓					✓	
Valuation Training	11.11.21									✓
Breaches of the Law & Responsible Investing	22.03.22	✓	✓	✓	✓	✓			✓	✓
Hymans Robertson Online Learning Academy		**ALL MEMBERS REGISTERED**								

Review of Effectiveness

During March 2022, members of the Board completed a survey and held a workshop to agree potential changes in the way the Board works to improve its effectiveness. This was the second time the Board had undertaken such a review. The survey included questions on the way meetings are conducted and knowledge, skills and capacity.

The results of the survey were positive in a number of areas and were broadly consistent with the results from 2021. All (or a significant majority of) members of the Board agreed that:

- Board papers are timely, relevant and focused on priorities.
- Discussions are facilitated to allow all Board members to contribute in order to seek opinion and develop ideas.
- Board members are not afraid to ask obvious or simple questions to ensure collective understanding.
- Board discussions are not unduly influenced by an individual's views, experience or expertise.
- Meeting minutes are accurate and record decisions made and actions agreed.
- The Board works in an open and transparent manner.
- All Board members act with integrity, declaring and managing any personal conflicts of interest.
- The Board's independent adviser helps to Board to fulfil its responsibilities.

The Board agreed that the ongoing improvements from the Board's review in 2021 continue to be relevant including improving communication between with the Authority and requesting that the tenure of councillor membership be extended from the current 2 years. Further improvements were agreed this year including overseeing the Authority's meetings/governance, training and dealing with vacancies on the Board. The Board will work with the Authority to put these improvements in place.

Future Plans

Over the coming year, the Board will continue to consider issues covering pensions administration and governance included in its Work Programme and specifically will work with the Authority to:

- Assess compliance with, and the potential requirements of the Pensions Regulator's consolidation of its Codes of Practice;
- Develop training plans based on the recent knowledge and training needs assessment, in line with the new Learning and Development Strategy;
- Oversee the 2022 actuarial valuation.

Local Pension Board Spending for 2021/2022

Expenditure	2021/22 Budget	2021/22 Forecast Outturn £	2021/22 Outturn Variance £	2021/22 Outturn Variance %
Independent Adviser	6,090	7,300	1,210	19.9%
Room hire and catering	660	370	(290)	-43.9%
Training and Development	6,000	3,540	(2,460)	-41.0%
Member travel expenses	500	110	(390)	-78.0%
Printing and Postage (Agendas etc.)	750	0	(750)	-100.0%
Total	**14,000**	**11,320**	**(2,680)**	**-243.1%**

The forecast outturn against the budget for 2021/22 is £11,320 which represents an under-spend of (£2,680).

The expenditure in relation to the Independent Adviser includes fees for additional services in relation to the work on member learning and development, and travel and subsistence expenses for the latter half of the year following the return to meetings being held in person.

The remaining under-spends reflect reductions in various running costs arising from things such as holding meetings online in the first half of the year, the continuing move to paperless, and the new office accommodation enabling meetings to be held in our own venue.

Subject	**Local Pension Board Membership**	**Status**	For Publication
Report to	Authority	**Date**	9th June 2022
Report of	Corporate Manager - Governance		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Jo Garrison	**Phone**	01226 666418
E Mail	jgarrison@sypa.org.uk		

1 Purpose of the Report

1.1 To secure a decision from the Authority with regard to the filling of vacancies on the Local Pension Board and approval of the relevant amendments to the Board's Constitution.

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2 Recommendations

2.1 Members are recommended to:

a. **Endorse the views of the Local Pension Board in relation to the need to achieve greater consistency of membership.**

b. **Direct the Authority's Director to request that the District Councils make their appointments to the Board for a period of 3 years.**

c. **Approve the consequent amendments to the Board's constitution.**

---

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 directly address the identified risks around the effective operation of the Local Pension Board.

5 Background and Options

5.1 At its last meeting in April the Local Pension Board considered, as is good practice, its annual effectiveness review. This raised some specific issues around membership which fall to the Authority to determine.

5.2 The Board determined two key principles in relation to its membership which underpin the thinking for its requests to the Authority

a. That the Constitution should be written flexibly enough in relation to membership that it does not require frequent changes.
b. That the terms of office of all members of the Board should not be less than 3 years to allow members to develop the knowledge and skills necessary to fulfil the relevant regulatory requirements.

5.3 The Board currently has 2 employer side vacancies, one for a councillor member and one for a seat currently designated as a local authority senior manager. Given that there are two councillor seats, albeit one has been vacant for some time, and that the District Councils through their appointments to the Authority effectively control the work of the Authority two seats out of five allocated to the District Councils on what is not a decision-making body seems adequate in terms of the representation of the different interests.

5.4 The Councillor members should be appointed by a rota between the District Councils in a similar way to the arrangements for Chairing the Authority, ideally with changes happening in different years. Currently Councillors are limited to a two-year term which is inconsistent with the other members and also means that just as they are beginning to become effective there is a change. It is recommended by the Board that this is extended to three years in line with other members. The Authority is being recommended to agree to this and to instruct the Director to write to the District Councils to this effect. In practical terms this will mean that Barnsley who will be appointing to the vacancy will be asked to do so for 3 years and that Sheffield will be asked to confirm their appointment for an additional year, with Doncaster making an appointment the following year.

5.5 In terms of the non-councillor employer representatives the feeling of the Board was that the current arrangements are too prescriptive and that a more generic approach should be taken with the Authority's officers being asked to have regard to the balance of different employer groups as a criterion when considering competing applications for appointment. The relevant changes to the Board's constitution are highlighted below:

5.1.1 Employer representatives will consist of:

- *Local Authority Councillors (rotated every ~~2~~ 3 years) in line with a pattern agreed with the Constituent Authorities*
- *3 other employers (appointed for 3 years) chosen with regard to the balance of different employer groups.*
- ~~*1 'Other Large Employer' (appointed for 3 years)*~~
- ~~*1 Academy (appointed for 3 years)*~~
- ~~*1 Local Authority Senior Manager (appointed for 3 years)*~~

5.1.2 Employee representatives will consist of:

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

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

5.1.4 A non-Councillor member (employer or scheme member) may serve a maximum of three terms of office.

5.6 These changes should allow the Board to build on its increasingly stable and knowledgeable membership while maintaining appropriate representation of different interests among employers.

5.7 The Authority needs to develop during this year a formal policy on representation as part of the work flowing from the Good Governance Review and this will need to set out how the discretion implicit in the proposed position will be exercised.

6 Implications

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

Financial	None
Human Resources	None
ICT	None
Legal	The Public Sector Pensions Act 2013 and the relevant LGPS regulations require the Authority, as scheme manager, to constitute a Local Pension Board and to ensure that its membership is broadly representative of the various different interests represented within the Fund’s membership and employer base. The proposals set out in this report specifically address there requirements.
Procurement	None

Jo Garrison

Corporate Manager - Governance

Background Papers	
Document	**Place of Inspection**
Local Pension Board Constitution	Governance (sypensions.org.uk)

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Subject	Annual Governance Statement	Status	For Publication
Report to	Authority	Date	9th June 2022
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham	Phone	01226 666439
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To secure approval for the Authority's Annual Governance Statement.

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2 Recommendations

2.1 Members are recommended to:

a. **Approve the Annual Governance Statement for 2021/22 and authorise its signature by the Chair and Director.**

b. **Note the provisional conclusion of the Head of Internal Audit which will be revised if required by the content of the Internal Audit Annual 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.

Reviewing and gaining assurance around the control environment and the effectiveness of the Authority's arrangements for securing good governance demonstrates an organisation that is self-aware and complying with the relevant legal requirements.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in the Annual Governance Statement address various identified risks and areas for improvement, some of which are directly referenced in the Corporate Risk register, while others are subsets of identified corporate risks.

5 Background and Options

5.1 The Accounts and Audit Regulations require the Authority to produce a statement each year reviewing in broad terms the effectiveness of its governance arrangements and control environment. The statement has to be signed by the Head of Paid Service and the Chair and is included in the Statement of Accounts and relied upon by the External Auditor as part of the evidence base for their value for money conclusion.

5.2 The Annual Governance Statement (AGS) assesses compliance with and performance against the standards set out in the Authority's Local Code of Corporate Governance (available through background papers). The Annual Governance Statement for 2021/22 is attached at Appendix A for approval.

5.3 While the year reviewed in this AGS was a little more settled than the previous one there was still a significant impact on the organisation due to the pandemic, not least through the pro-longed period of homeworking, which continued to place some strain on both governance and control arrangements. All of these have been effectively addressed, although as indicated further work and opportunities for improvement have been identified in a number of areas.

5.4 The AGS is produced through a process which involves a review of arrangements in each service area by the Head of Service who provides an assurance statement to the Director who then uses these statements as part of the evidence base to assemble an overall statement. Other things which are included in the evidence base are internal and external audit reports, external assessments, regular performance reporting and an exercise to identify areas where the standards set out in the local code are not being met, together with the annual reports of the Audit Committee and Local Pension Board. The Director's assessment is also sense checked by Internal Audit. Such Internal Audit input is a recognised good practice.

5.5 The AGS includes a summary of the assessment of the control environment from the Internal Audit Annual Report. Currently this is a provisional assessment, pending the completion of the full Internal Audit Annual Report and should any amendment be required this will be made prior to the publication of the statement as part of the accounts.

5.6 The action plan reflects the development of a number of themes from previous years together with some additional issues which reflect the learning from the changes that have had to be made during the pandemic. The key themes are around the issues which have previously been discussed with members around achieving organisational resilience and sustainability and achieving a greater level of staff engagement in driving the organisation's improvement agenda.

5.7 The actions proposed are all in line with the direction of travel set out in the Corporate Strategy.

6 Implications

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

Financial	None directly individual actions may require specific resources which will be dealt with through the appropriate decision-making processes as appropriate.
Human Resources	There are a number of actions which will require HR input. This will be factored in to the relevant work plans
ICT	None directly
Legal	None directly
Procurement	None directly

Georg Graham

Director

Background Papers	
Document	**Place of Inspection**
Local Code of Corporate Governance	SYPA Local COde of Corporate Governance June 2019.pdf (sypensions.org.uk)

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Appendix A

SOUTH YORKSHIRE
PENSIONS AUTHORITY

Annual Governance Statement 2021/22

Scope of Responsibility

The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which include arrangements for the management of risk. Apart from employing its own officers and advisors the Authority also receives support services from officers of Barnsley Metropolitan Borough Council (BMBC) under the terms of a service level agreement.

The Authority's Local Code of Governance complies with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) Framework Delivering Good Governance in Local Government Framework 2016. A copy of the Authority's code is on our website here.

The Local Code and this statement are also supported by the Governance Compliance Statement which the Authority is required to produce under s 55(1) of the Local Government Pension Scheme Regulations 2013, which is also available on our website.

This statement explains how the Authority has complied with the code and meets the requirements of regulation 6(1) of the Accounts and Audit (England) Regulations 2015 relating to the preparation and approval of an annual governance statement.

The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values, by which the Authority is directed and controlled and the activities through which it accounts to and engages with employing bodies, pensioners, contributors, and other stakeholders. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk: it can only provide a reasonable and not absolute assurance of effectiveness. The system of internal control is designed to identify risks to the achievement of the Authority's policies, aims and objectives. The system attempts to evaluate the likelihood of those risks being realised and the impact should they be realised and how to manage them efficiently, effectively and economically.

The governance framework has been in place during the year ended 31 March 2022 and up to the date of approval of the Statement of Accounts.

Outline of the Governance Framework

The Authority's framework of governance continues to evolve in line with best practice and is based upon the 7 Core Principles set out in the 2016 CIPFA/SOLACE guidance, *Delivering Good Governance in Local Government: Framework*. More details about the Authority's arrangements for ensuring compliance with each of the 7 Core Principles are set out in the Authority's Local Code of Corporate Governance which is available here.

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of the law.

Behaving with integrity

The Authority has in place codes of conduct covering the behaviour of both members and officers, which form part of its constitution, with appropriate mechanisms for ensuring that action can be taken where transgressions are reported. For officers these are reinforced through a framework of values and behaviours, including specific management behaviours, which are reflected upon at individual level as part of the appraisal system.

In line with the requirements of local government law elected members are required to complete declarations of interest which are publicly available and to declare any conflicts which might arise in discussion of specific matters at meetings of the Authority and its committees. Similar arrangements also apply to members of the Local Pension Board, although these are not governed by local government law, but by the Local Government Pension Scheme regulations and the Public Service Pensions Act 2013.

Registers of potential conflicts, including personal relationships are maintained for staff and a register of gifts and hospitality is maintained for both staff and officers.

The Authority maintains a comprehensive policy framework in relation to issues such as fraud and corruption and has a Whistleblowing Policy in place should any individual wish to make a confidential disclosure, as well as complaints policies in relation to quality of service, and statutory appeals processes in relation to decisions made under the Pensions Regulations.

Demonstrating strong commitment to ethical values

The Authority operates with an extremely strong value base in relation to ethical standards and values reflecting the seriousness of its responsibility as steward of the pension savings of a very large number of individual scheme members. This is reflected in the way in which the values and behaviours framework is central to both the Corporate Strategy and the appraisal process and the wider policy and constitutional framework covering issues such as recruitment and selection and procurement. The Authority also seeks to bring its commitment to these values into the role it plays within any partnership in which it participates, particularly the Border to Coast Pensions Partnership which is central to the delivery of its corporate objectives.

Respecting the rule of the law

The Authority ensures that it is aware, through the employment of specialist officers and advisers, of the statutory requirements which are placed upon it and takes steps to ensure that it complies with them in an open and transparent way. This includes the maintenance of an up-to-date Constitution which is regularly reviewed and includes definitions of both the Corporate Planning Framework and Pensions Policy Framework, together with terms of reference for committees and an appropriate scheme of delegation to officers.

The Authority maintains up to date job descriptions / role profiles for all posts within the organisation and ensures that it has appropriately qualified statutory officers in post who are able to operate in a way which complies with the relevant professional codes.

Formal records are kept of decisions taken by both officers and members together with the advice considered in making such decisions, and a committee secretariat, provided by Barnsley MBC under a service level agreement, has supported the Authority's democratic processes during the year ensuring compliance with the relevant regulations. This function will be internalised within the Authority during the coming year.

The Authority has a formal policy on the reporting of breaches of the relevant pension regulations and any breaches which occur are reviewed by the Local Pension Board at each of its meetings. The Authority also has clear and effective policies in relation to fraud and corruption and participates in the National Fraud Initiative.

Principle B: Ensuring openness and comprehensive stakeholder engagement

Openness

The Authority seeks to be as open as possible with stakeholders, conscious that it is the steward of the savings of around 170,000 individuals, working for close to 600 different employers. To this end it complies with its obligations under the Freedom of Information Act and makes a considerable volume of information automatically and freely available through its website, which has been significantly upgraded and redesigned during the year making information easier to find. The Freedom of Information Act Publication Scheme which specifies the information published by the Authority and how to access was updated last year and is now used as one means of signposting information electronically.

This includes a range of information on investment holdings, performance, the policy frameworks, and responsible investment issues such as how shares have been voted. In addition, the agendas and papers for the Authority, the various Committees and the Local Pension Board are published on line a week before each meeting and all meetings are open to the public, and an increasing number of meetings are also webcast. Key decisions made by officers are formally recorded and details published on the website.

The pandemic has continued to result in some disruption to meeting arrangements during the year, and while in person meetings have resumed they have until the latter part of the year required social distancing measures to be in place which has impacted the nature of the debate. The Local Pension Board which is not subject to the same rules as the Authority has amended its constitution during the year to provide for virtual and hybrid meetings, where appropriate, although the expectation is that in person meetings will be the norm.

In order to promote clarity in the information provided to support decision making reports for decision making bodies follow a standard format which ensures that, for example, implications for the financial position of the Authority of a decision are clearly explained. In addition all reports for decision are required to outline relevant risk considerations, so that these can be understood by decision makers. All reports have to be "cleared" by the statutory officers prior to submission to elected members for decision.

In order to ensure decision makers can consider the views of stakeholders in a systematic way when necessary, the Authority has adopted a Communications and Consultation Strategy which provides a standard framework for engaging with stakeholders.

Engaging comprehensively with employers and other institutional stakeholders
All engagement with employers takes place within the context of the Communications and Consultation Strategy which requires the results of any consultation process to be reported back alongside the actions proposed following the consultation.

Resources have been specifically allocated to support engagement with employers in order to support the maintenance of a productive and supportive relationship between them and the Authority.

In addition, the Authority has in place clear protocols regarding its participation in significant partnerships, the only one currently being the Border to Coast Pensions Partnership. Clearly defined roles are set out for each participant in the Partnership in its Governance Charter and the relevant legal agreements. Regular reports are provided to the Authority by officers on the activity and performance of the Partnership. The Authority's participation in the Partnership is also subject to a comprehensive annual review which considers the achievement of both the Authority's and the Partnership's objectives.

Emphasis has continued to be placed on increasing the volume and improving the quality of interaction with employers and an employer forum session and survey have been undertaken during the year as well as the institution of a new employer newsletter. Responding to the Local Pension Board there has been an emphasis on monitoring the performance of employers in resolving data queries.

Engaging scheme members effectively
The processes for engaging with and understanding the views of scheme members are set out in the Communications and Consultation Strategy which applies to scheme members in the same way as employers. In addition, the Authority's complaints and appeals processes are available to scheme members in relation either to quality of service, or specific decisions made under the LGPS regulations. Information from the complaints and appeals processes forms part of the Authority's performance management framework and influences the development of policy, practice, and processes, including specific projects reflected in the Corporate Strategy. As part of its assurance and scrutiny role the Local Pension Board receives a quarterly report outlining the nature of all appeals and complaints and the subsequent actions and learning as well as quarterly information on the results of various rolling customer satisfaction surveys which examine specific aspects of the service to scheme members, which also include information on learning and actions from this feedback.

As a result of the pandemic interaction with scheme members was moved entirely online, and this has proved successful and popular with members, although the facility for face-to-face meetings will be restored in the coming year. Satisfaction survey data indicate that there has been no material change in levels of scheme member satisfaction with the quality of service as a result of the move to entirely remote interaction.

Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits

Defining outcomes
The Authority sets out a clear vision supported by specific objectives which assist in the achievement of that vision within its Corporate Strategy which is at the heart of its corporate planning framework. Delivery against these objectives and key quality of service standards is reported quarterly to members of the Authority within a comprehensive report, allowing action to be taken to address any variations if required. All activity is undertaken within a risk management framework which covers all aspects of the Authority's work.

Sustainable economic, social and environmental benefits
The Authority's Responsible Investment Policy sets out how it reflects the balance between economic, social, environmental and governance issues within its investment decision making process and the areas where it seeks to move partners within the Border to Coast Pensions Partnership to a shared position. Responsible investment is central to the Authority's approach to the management of the funds for which it is responsible and it is an active participant in a range of initiatives which seek to support the achievement of its objectives in this area. Development in this area has continued over the last year with the completion of an assessment of the impact of the Authority's investments on people and planet together with further updating of policies in the light of wider developments.

The Authority's decision making on key issues of this sort is transparent with appropriate decisions either taken in public meetings or published and supporting information placed in the public domain where possible, although it is impossible for market sensitive information to be placed in the public domain.

The Authority actively engages with groups seeking to influence its policies in different ways and uses its Communication and Consultation Strategy to seek views on issues where appropriate and it considers differing views when making decisions.

Beyond the investment sphere the Authority maintains an Equality and Diversity Scheme to guide its approach to the delivery of fair access to its services for any individual with a protected characteristic.

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Determining interventions
The Authority's officers ensure that when making decisions elected members have access to as much objective information as possible as well as to the views of appropriately skilled and experienced independent advisers where specialist areas such as investment strategy are under consideration. Where members require additional information officers agree specific timescales for its provision. The corporate planning process and the medium-term financial strategy provide the means by which the Authority agrees the relative priority and resource requirements of specific interventions.

Planning interventions
The Authority has a well-defined and robust corporate planning framework with the review cycle linked at a high level to the major cyclical events impacting its operations (principally the triennial actuarial valuation of the Pension Fund). This framework is supported by well-established consultation arrangements ensuring that stakeholder views can influence plans where appropriate and a risk management framework that ensures that both risks to service delivery and risks impacting the assets and liabilities of the Pension Fund can be addressed holistically.

A robust framework for monitoring the delivery of all the various plans and strategies is in place with a comprehensive report including both financial and performance information presented to the Authority on a quarterly basis with more detailed reports covering pension administration presented quarterly to the Local Pension Board and on investment performance to the Authority. These reports highlight deviations from plans and identify and assess the risks relevant to the achievement of objectives as well as including information around feedback received and how it has been acted on.

Optimising achievement of intended outcomes
The Authority's medium term financial strategy and corporate strategy draw on inputs from both stakeholder feedback mechanisms, the views of elected members and the Senior Management Team's assessment of developments in the wider external environment in order to direct resources to address priority areas. The medium-term financial strategy examines both the Authority's operating budget and the financial position of the Pension Fund ensuring that all areas of cost and income are fully taken into account.

In addition given the centrality of being a responsible investor to the way in which the Authority invests the Pension Fund regular publicly available reports are provided to the Authority detailing responsible investment activity undertaken and the outcomes achieved through this activity. These include summaries of the Fund's votes at company annual meetings. As part of this approach the Authority subscribes to the principles set out in the FRC's Stewardship Code which requires investors to report to stakeholders in a clear way on how they have managed the funds for which they are responsible.

Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

Developing the entity's capacity
The Authority is very aware of both its cost base and performance and undertakes benchmarking of both of these across both the main streams of operational activity (pension administration and investment). The Authority has also opened itself up to external challenge through undertaking an independent review of governance in response to the Good Governance Review undertaken by the Scheme Advisory Board and through the appointment of an independent adviser to the Local Pension Board in order to assist the Board in providing more robust challenge to officers. Steps have also been taken to equip members of the Audit Committee to enable them to provide more effective challenge.

The Authority's Human Resources Strategy also explicitly addresses the way in which the Authority plans and develops its workforce requirements.

Developing the capability of the entity's leadership and other individuals
The Authority has strong constitutional arrangements in place including an effective scheme of delegation, financial regulations and contract standing orders which define which individuals can take which decisions. These arrangements are subject to regular review.

Clear role profiles are in place for all posts within the organisation, which are linked to a consistent organisational design framework. The Director's role profile is agreed with elected members and this and the Constitution clearly set out the dividing lines between member and officer responsibilities. Means of maintaining regular dialogue between the Director and the Chair are agreed with each Chair on their taking office.

A Learning and Development Strategy is in place for elected members supported by the allocation of specific time within the overall programme of meetings. This strategy is set within the context of the CIPFA Knowledge and Skills Framework and has regard to the requirements of the Pensions Regulator and provides access to both in house and external events as well as on-line learning and specific reading materials. A targeted induction programme is provided for new members. Members of both the Authority and the Local Pension Board are asked to self-assess their learning needs as part of developing the annual training programme.

For staff access is provided to on-going learning and development as necessary to support the goals set out in individual appraisals. In addition to competency based progression through the pension administration career grade this can include professional qualification training, external training courses and internally provided technical updates and system specific training. The career grade scheme for pension administration has been comprehensively revised during to make it more clearly competency based and better focussed on meeting the Authority's needs, and similar progression schemes have been developed for Customer Services and Pension Systems teams and for the two levels of the Senior Practitioner role.

All learning and development activity is supported through access to online resources through a range of systems such as on line reading rooms, SharePoint, modern.gov and LinkedIn Learning.

The Authority has an appraisal system in place that is used to manage individual performance and to support the succession planning process which is in place in key risk areas and following the Director's appraisal for 2021 members of the Authority have asked him to bring forward proposals for strengthening organisational resilience during 2022.

Arrangements for Health Safety and Wellbeing continue to be given prominence with the addition during the year of a contractual arrangement for Health and Safety advice and the provision of a range of additional health and support including workplace health checks and a range of webinars and other activities aimed at developing knowledge and understanding of key issues such as stress.

Over the course of the year the Authority has agreed a range of changes to its organisation including the internalisation of arrangements for the provision of the roles of Treasurer and Monitoring Officer which will be completed during the coming year. In addition the Director has been instructed to produce a medium-term plan to address issues of resilience and sustainability within the organisational structure for presentation to elected members during the coming year, reflecting a longer term approach to resource planning.

Principle F: Managing risks and performance through robust internal control and strong public financial management

Managing risk
A risk management policy framework is in place and was reviewed during the year by the Audit Committee which sets out clearly the responsibilities for managing the risks facing the organisation, how they should be assessed and reported. The risk register is reviewed on a monthly basis by the Senior Management Team with reporting on a quarterly basis to meetings of the Authority as part of the overall performance management framework, together with review and challenge by the Local Pension Board. In addition during the year an appointment was made to the new role of Governance and Risk Officer increasing the level of resource and amount of focus that can be devoted to this area.

Managing performance
The Authority has robust and transparent arrangements for the reporting and monitoring of its performance in place including clearly defined timetables for the reporting of information which have been added to during the year by the introduction of improved financial monitoring. Wherever possible data is placed in the public domain and statutory reporting timescales are adhered to.

Where appropriate these arrangements are supported by the use of benchmarking information and other external sources of comparison data.

Members and the Local Pension Board are encouraged to seek improvements in the data provided and officers have encouraged challenge within the monitoring process from both the Local Pension Board and members of the Authority, including through the appointment of an independent adviser to support the Local Pension Board in order to ensure that it is not being guided by officers.

The Authority welcomes external challenge and has opened itself up to such challenge through commissioning an external review of its governance arrangements and the implementation of the recommendations from this review was completed during the year. A further review will be undertaken during 2023/24 in line with the proposals set out in the Good Governance Project sponsored by the Scheme Advisory Board.

Assurance processes are in place over the production of performance management information which ensure that the reports provided to different bodies are consistent.

The processes for generating and presenting information continue to be subject to constant review and improvement to make it both easier to report and to understand the information generated. The processes to replace the investment accounting and financial management systems were completed during the year and the replacement of the HR and Payroll system is scheduled for the coming year. A need has been identified for an integrated risk management and performance system which will be developed into a business case during the coming year.

Robust Internal Control
The Authority has an Audit Committee in place whose terms of reference are consistent with the relevant professional standards. The Committee has produced its own Annual report, available within the Governance section of the Authority's website, which sets out the work it has undertaken during the year.

The Committee is responsible for overseeing the work of Internal Audit which is provided by Barnsley MBC's Internal Audit Service and in particular ensuring that the Internal Audit plan addresses key control risks facing the Authority. The Head of Internal Audit is required under the relevant professional standards to produce an annual opinion on the adequacy of the control environment. For 2021/22 this opinion is that *"based on the systems reviewed and reported on by Internal Audit during the year to date, together with management's response to issues raised, I am able to give a reasonable (positive) assurance opinion regarding the effectiveness of the control, risk and governance environment."*

Whilst Internal Audit remain positive overall regarding the degree of engagement and support from senior management it is important for the delivery of audit coverage and to support the Head of Internal Audit's annual opinion that responses to requests for information and for the discussion of draft reports is timely. The Authority's Senior Management Team recognises this as an emerging issue and have identified resources to ensure a more structured and timely approach to responding to Internal Audit.

The Audit Committee has instituted a process of reviewing the progress made in implementing audit recommendations to ensure that the control environment continues to be strengthened as a result of the audit process.

The Audit Committee has reviewed the policy framework for Risk Management during the year and approved updated policies in line with relevant professional standards and which are suited to the scale and nature of the organisation's activities.

While some improvements have been made in the level of challenge provided by the Audit Committee, through the provision of additional briefing sessions for members this remains a work in progress and further developments will be undertaken over the coming year.

Managing Data
High quality data is central to the effectiveness of the organisation in its core function as a pension administrator. The Authority has a strong policy framework in place to ensure both the security and integrity of the large quantities of data which it holds. This includes the Authority's Director acting as the Senior Information Risk Owner (SIRO) and the Head of Internal Audit as the Data Protection Officer. Arrangements for the SIRO role will change in the coming year following the appointment to the new role of Corporate Manager – Governance.

The Authority has received the Cyber Essentials + accreditation from government in relation to its arrangements for information security.

The work of the Data Protection Officer is supported by an annual programme of review activity to ensure that the policy framework is being complied with.

An annual assessment of the quality of data held for pension administration purposes is undertaken and a data improvement plan is produced to ensure that any issues identified are addressed. Progress with delivering the data improvement plan is overseen by the Local Pension Board.

During the coming year the role of Senior Information Risk Owner will be passed to the new role of Corporate Manager – Governance who will provide additional resource to support the ongoing development of the information governance framework.

Strong public financial management
The Authority is steward of a very large pension fund and therefore strong financial management is crucial to its effective operation. A strong framework of budgetary control is in place which has been enhanced in the last year with improvements in both budget preparation and financial monitoring. Key projects are required to operate within defined budgets which receive approval through the appropriate decision-making processes.

The Authority's Medium Term Financial Strategy defines various fiscal rules which constrain the growth in expenditure mirroring, to some extent, the constraints which apply to conventional local authorities through the council tax capping regime.

Principle G: Implementing good practices in transparency and audit to deliver effective accountability

Implementing good practice in transparency
The Authority seeks to be open and transparent in all its activities maintaining the minimum amount of information possible as confidential. Therefore, the Authority publishes a very significant amount of information about its services and activities on its website www.sypensions.org.uk including for example details of investment holdings and voting records. The agendas and public reports for all meetings of the Authority, its committees and the Local Pension Board are published on the internet and the public parts of meetings of the Authority (and more recently of committees and the Local Pension Board) are webcast. The Authority's annual report also contains a significant amount of information on its activities in a more user-friendly format. The Freedom of Information Publication Scheme has been updated during the last year and this provides clear signposting to the information which is publicly available and where it can be found.

The Authority took steps, as indicated elsewhere in this statement, to ensure that the pandemic did not negatively impact on the transparency of its operations.

Implementing good practice in reporting
The Authority regards "telling its story" as an organisation in terms of both its activity and the way in which it demonstrates both value for money and effective stewardship of scheme members' savings as a key activity. For key documents such as the Annual Report and Accounts the Authority follows the relevant professional codes in terms of the provision of information and seeks to go beyond them where possible, particularly in terms of presenting the information in a way which allows the reader to set information in the context of the Authority's work and easily understand it.

In order to promote greater understanding by stakeholders of its investment portfolios and support its goals in terms of decarbonisation of its investments the Authority has commissioned the production of an impact report for 2020/21 which was published in March 2022. This analyses the impact of the Authority's investments on people and planet using the UN Sustainable Development Goals as an analysis framework.

The Authority uses the governance framework set out in the Local Code of Corporate Governance to ensure that the information provided in reporting is accurate and consistent and that the same standards are met by key partnerships such as the Border to Coast Pensions Partnership.

Assurance and effective accountability
The Internal Audit function operates under a charter which conforms to the relevant public sector internal audit standards ensuring that the Authority complies with the relevant professional standards.

The Audit Committee has adopted a process of reviewing progress with the implementation of audit recommendations to ensure that improvements are being delivered as a result of work carried out by both internal and external audit and potentially other review agencies when the Scheme Advisory Board's Good Governance reforms are introduced.

The Authority has now completed implementation of the recommendations made in Hymans Robertson's review of its governance, pre-empting the Good Governance standards. The Authority has also appointed an independent adviser to support the Local Pension Board in providing effective challenge and scrutiny, and the Board has conducted its own review of its effectiveness.

All of these arrangements also apply to the way in which the Authority engages with various partners and a comprehensive process of gathering assurance from those managing money on behalf of the Authority is undertaken each year. In particular the Authority seeks to ensure that the activity undertaken on its behalf by the Border to Coast Pensions Partnership reflects the agreed Governance Charter which applies similar standards to the Authority's arrangements in the Partnership's unique context.

Governance Issues

The Covid-19 Pandemic continued to impact Britain throughout the period under review and while, at the time of writing restrictions have been lifted the Pandemic continues to influence the way in which the Authority is operating and key management issues such as the level of staff sickness.

The processes described above have identified the following governance issues for attention. Some of these are longer term issues and as such continue to feature from previous statements. The outcome of the Annual Governance Review suggests that the following significant governance issues need to be included in the 2021/22 Annual Governance Statement Action Plan. These are:

- The need to conduct a comprehensive review of the Constitution to reflect the new statutory officer arrangements to be introduced in April 2023 and ensure that it is up to date in terms of changes in key regulations such as those arising from the UK's exit from the European Union.
- The need to further embed the appraisal process and link it to the organisation's values including adjusting the appraisal year so that appraisals are conducted away from key workload peaks and to ensure that training needs are effectively collated to support a corporate training programme.
- The need to review a range of processes and plans around business continuity and health and safety now that the Authority occupies its own building.
- The need to develop a longer-term view of the Authority's resource requirements and ensure that identified gaps are addressed.
- The need to link programme and project management arrangements more clearly to actions identified in the Corporate Strategy and other key plans.
- The need to make better use of information in managing performance.
- The ongoing need to strengthen internal governance building on the changes to staffing and service delivery arrangements already agreed.
- The need to reinvigorate the approach to staff engagement following a long period of entirely remote working which has made this more difficult.

The actions taken to date to address these have or will be reported to the Authority and the Audit Committee. Progress in implementing these improvement actions will be monitored by Managers and Internal Audit and through regular reports to the Authority and its Committees.

Signed: **Chair** **South Yorkshire Pensions Authority**	**Signed:** **Director** **South Yorkshire Pensions Authority**

APPENDIX A

Annual Governance Statement Action Plan for Completion in 2022/23			
Issue	**Action Required**	**Responsible Officer**	**Date for Completion**
Need to update the Constitution	Full review of the Constitution to be commissioned using legal advisers	Corporate Manager – Governance	March 2023
Improvements to the appraisal process and training plan	Changes to appraisal documentation and appraisal year, additional training for managers and move to an online system	Head of Finance and Corporate Services & HR Business Partner	June 2023
Updates to Business Continuity and health and safety arrangements	Review of arrangements in light of the move to the Authority’s own premises and to fully document arrangements beyond those specifically related to ICT which are already documented	Head of Finance and Corporate Services	March 2023
Organisational resilience and sustainability	Prepare medium term proposals addressing both succession planning and resilience for implementation over the Corporate Strategy period	Director	December 2022
Strengthen project management	Implement arrangements to support individual project managers with scoping planning and reporting on corporate strategy projects	Team Manager – Programmes and Performance	March 2023
Strengthen corporate performance management and reporting	Introduce arrangements for the centralised production of performance information allowing managers to focus on interpretation and follow up action	Team Manager – Programmes and Performance	March 2023

Strengthen internal governance	Update and refresh arrangements around key processes such as information governance, procurement, decision recording and scheme of delegation.	Corporate Manager – Governance	March 2023
Reinvigorate staff engagement	Implement action plan developed following staff feedback	Senior Management Team	March 2023

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Amendment to the Authority's Constitution**	**Status**	For Publication
Report to	Authority	**Date**	9th June 2022
Report of	Director and Monitoring Officer		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	**Phone**	01226 666439
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To update the provisions of the Authority's Constitution regarding the sealing of documents.

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2 Recommendations

2.1 Members are recommended to:

a. Approve the changes to the list of officers authorised to execute sealed documents on the Authority's behalf 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.

The proposals set out in this report aim to maintain clear and appropriate levels of control and delegation.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report have address the risks included in the Corporate Risk Register relating to the control environment and seek to ensure sufficient numbers of officers are available to execute sealed documents while maintaining division of duties.

5 Background and Options

5.1 Following the departure of the Deputy Clerk the number of officers available to execute documents requiring the Authority's seal to be attached is reduced. These documents are generally associated with transactions within the Authority's property portfolios and often need to be turned round in relatively short timescales. Therefore it is important to have sufficient officers available able to execute such documents to allow this to happen. It is also important for internal control purposes that the officers executing such documents are not directly involved in the associated decision-making processes, which for example means that the Director and Head of Investment Strategy would not be appropriate officers to add to the list of those authorised.

5.2 It is intended to commission a comprehensive review of the constitution in the run up to the formal changes to the statutory officer roles in April 2023. However, in the interim the simplest way to ensure that sufficient officers are always available to execute documents on behalf of the Authority is to add the Corporate Manager – Governance the list of authorised officers.

5.3 Consequently, the Authority is recommended to approve the addition of the following to para 30.5 of the Procedural Standing Orders at Part 4 A of the Constitution.

“v) The Corporate Manager – Governance”

6 Implications

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

Financial	None
Human Resources	None this type of activity is reflected within the broad role profile for the Corporate Manager - Governance
ICT	None
Legal	
Procurement	None

Georg Graham

Director

Jason Field

Monitoring Officer

Background Papers	
Document	**Place of Inspection**
SYPA Constitution	SYPA Constitution June 2021.pdf (sypensions.org.uk)

Subject	**Decisions taken Between Meetings of the Authority**	**Status**	For Publication
Report to	Authority	**Date**	9th June 2022
Report of	Corporate Manager - Governance		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Jo Garrison Corporate Manager - Governance	**Phone**	01226 666418
E Mail	jgarrison@sypa.org.uk		

1 Purpose of the Report

1.1 To report on decisions taken as a matter of urgency between meetings of the Authority.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the decisions taken between meetings of the Authority using the appropriate urgency procedures.**

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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 One of the decisions taken relates to the identified risks around the ability of Border to Coast to deliver effectively, while the other relates to the effective operation of the .

5 Background and Options

5.1 It is often necessary for decisions to be taken between meetings of the Authority due to the time sensitive nature of the matters involved. These decisions are taken by the Chair in consultation with the s41 members and the Director and while published on the Authority's website are also reported to the next Authority meeting for transparency.

5.2 One decision has been required since the previous meeting of the Authority. This related to the casting of the Authority's shareholder vote on resolutions concerned with the remuneration of Executive Directors of Border to Coast. The proposals made were in line with both the policy and budget previously discussed by members at a meeting of the Full Authority.

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

5.4 In general decisions taken under the Director's delegated powers are not reported separately to the Authority, although they are published and available via the website. However, on this occasion due to its significance, it is appropriate that one decision be reported to the Authority for information. Following consultation with the Chairs of the Authority and the Local Pension Board and the members of the Local Pension Board it has been decided to extend the contract of the Board's independent adviser, Clare Scott, for three years.

6 Implications

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

Financial	None
Human Resources	None
ICT	None
Legal	None
Procurement	None

Jo Garrison

Corporate Manager - Governance

Background Papers	
Document	**Place of Inspection**
Published Decision Records	Governance (sypensions.org.uk)

Subject	Member Learning and Development – Needs Assessment and Programme	Status	For Publication
Report to	Authority	Date	9th June 2022
Report of	Director and Corporate Manager - Governance		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Jo Garrison	Phone	01226 666418
E Mail	jgarrison@sypa.org.uk		

1 Purpose of the Report

1.1 To provide members with an update on the assessment of learning and development needs and the plan to address the identified needs.

2 Recommendations

2.1 Members are recommended to:

a. **Note the results of the Learning Needs Assessment process.**

b. **Approve the proposed learning and development plan set out in Appendix A.**

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 relate to the risks identified around the effectiveness of the Authority and form part of the process of mitigating those risks.

5 Background and Options

5.1 In recent years there has been a marked increase in the scrutiny of LGPS Funds. The Public Service Pensions Act 2013 introduced new governance legislation, including the requirement for Local Pension Boards to be set up and extended the remit of the Pensions Regulator to public service schemes as set out in its Code of Practice 14. Additionally, the Department of Levelling up, Housing and Communities ("DLUHC") and the Scheme Advisory Board have emphasised the need for the highest standards of governance in the LGPS. For English and Welsh Funds, the Good Governance review includes specific recommendations regarding knowledge and understanding and training. All these measures are aimed at ensuring that all involved in the governance of LGPS Funds can evidence they have the requisite knowledge, skills and commitment to carry out their role effectively.

5.2 As part of work to ensure that the Authority is directing resources to the appropriate areas of learning and development need earlier this year members of both the Authority and Local Pension Board were asked to complete a knowledge / needs assessment online using a tool provided by Hymans Robertson. New members and members who were previously unable to complete the assessment will have been taken through it on a 1:1 basis prior to this meeting. Given the commonality of previous responses it is not anticipated that this will result in a material change in the priorities identified but it will provide a comprehensive evidence base for future decision making. This activity supports the Member Learning and Development Strategy agreed last year in which members of both the Board and the Authority committed to the Pensions Regulator's benchmark of an average of 20 hours learning and development activity per year.

5.3 The assessment results indicate common needs across both the Authority and Board around investment performance and risk management, pensions accounting and audit standards and actuarial methods etc and financial markets and product knowledge. There was also some need identified around procurement and relationship management although from an officer point of view given that members are not now directly involved in procurement decisions (as might previously have been the case for investment managers) this is not a high priority. In addition to the above generic issues there is a need tor members to be kept up to date on specific issues which affect the Authority in a way that provides sufficient knowledge to question and challenge as necessary.

5.4 Set out at Appendix A is the proposed learning and development plan for the year, which has been constructed reflecting both the results of the assessment and knowledge of issues which will come forward over the next couple of years. Additionally, some issues such as product knowledge are better addressed in formats other than the training which can be directly provided by the Authority. This might be through attendance at the Border to Coast conference or viewing the Border to Coast insight videos which are easily available and have been signposted for members. In addition members are encouraged to attend external events and sign up for the monthly LGPS Live webinars and details of these are regularly circulated, while the Members' Handbook provides a useful basic reference source.

5.5 The Authority is required to include details of learning and development activity undertaken by members in the Annual Report and given that with the development of more free activity such as webinars it is increasingly important that members record their activity, and work will be undertaken this year to make facilities available which allow this to be done and for the results to be easily collated.

6 Implications

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

Financial	The plan outlined in this report can be resourced within the resources allocated for member training which historically have tended to be underspent.
Human Resources	None directly
ICT	None
Legal	None
Procurement	None

George Graham **Jo Garrison**

Director **Corporate Manager - Governance**

Background Papers	
Document	**Place of Inspection**
Member Learning and Development Strategy	SYPA Member Learning and Development Strategy June 2021.pdf (sypensions.org.uk)

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Programme of Internal Training Events 2022/23

Date	Type of Session	Topic
2022		
30th June	Seminar	McCloud and What We Need to Do
28th July	Audit Committee Briefing*	Scrutinising the Pension Fund Accounts
8th September	Post Meeting Informal Discussion	Project Chip Update
15th September	Seminar	Actuarial Valuation – Results and Issues
20th October	Audit Committee Briefing*	Risk Management
27th October	Seminar	Understanding Impact and Responsible Investment
10th November	Seminar	Investment Strategy Introduction
8th December	Post Meeting Informal Discussion	Border to Coast UK Real Estate Proposition
2023		
26th January	Post Meeting Informal Discussion	Investment Strategy – What's Coming In March
2nd March	Audit Committee Briefing*	Effectiveness Review
16th March	Post Meeting Informal Discussion	Administration Performance Standards
March	Local Pension Board Effectiveness Review and Training^	Effectiveness Review training topic(s) to be selected based on identified learning needs but with a possible focus on investment performance and risk management.

Sessions marked * are intended for members of the Audit Committee, but are open to other members to attend. Sessions marked ^ are intended for members of the Local Pension Board only. All other sessions are open to all members of the Authority and Local Pension Board.

In addition to the above details of relevant external events will be circulated when available.

The following two freely available source of learning are also recommended

The LGPS Scheme Advisory Board in association with DG Publishing have created a monthly series of free webinars called LGPS Live. These are recorded and if the timing doesn't suit provided members have registered then the content may be viewed later. Details are available here.

Border to Coast provide a range of insight materials which are available here.

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

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Appendix A

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