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Oakwell House
2 Beevor Court
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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, 16 March 2023 at 10.00 am for the purpose of transacting the business set out in the agenda.

Sarah Norman
Clerk

This matter is being dealt with by:	Gill Richards	Tel: 01226 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.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

THURSDAY, 16 MARCH 2023 AT 10.00 AM - OAKWELL HOUSE, 2 BEEVOR COURT, PONTEFRACT ROAD, BARNSLEY, S71 1HG

Agenda: Reports attached unless stated otherwise

	Item	**Pages**
	Business Matters	
1.	Apologies	
2.	Introductions	
3.	Urgent Items To determine whether there are any additional items of business which by reason of special circumstances the Chair is of the opinion should be considered at the meeting; the reason(s) for such urgency to be stated.	
4.	Items to be considered in the absence of the public and press To identify where resolutions may be moved to exclude the public and press. (For items marked * the public and press may be excluded from the meeting.)	
5.	Declarations of Interest	
6.	Section 41 Feedback from District Councils	
7.	Minutes of the meeting held on 09/02/2023	5 - 12
8.	Q3 Corporate Performance Report 2022/23	13 - 44
9.	Quarterly Investment Performance Report 2022/23	45 - 76
10.	Review of the Investment Strategy	77 - 148
11.	Report of the Member Working Group - Impact investment	149 - 164
	Break 11:30 to 11:40	
12.	SYPA Responsible Investment Policies annual review including net zero action plan update	165 - 206
13.	Q3 Responsible Investment Update 2022/23	207 - 230
14.	Funding Strategy Statement	231 - 308
15.	Valuation 2022 outcome	309 - 368
16.	Directors Appraisal **(Exemption Paragraph 1)**	369 - 374

17.	Employment Matter **(Exemption Paragraph 1)**	Verbal Report

SOUTH YORKSHIRE PENSIONS AUTHORITY

Authority Meeting.

9 February 2023.

PRESENT: Councillor J Mounsey (Chair).

Councillors: R Bowser, S Cox, A Dimond, D Fisher, M Havard, D Nevett, A Sangar and G Weatherall (Vice Chair).

Non-Voting Co-Opted Members: N Doolan-Hamer (Unison) and G Warwick (GMB)

Officers: W Goddard (Financial Services Manager), G Graham (Director), J Stone (Head of Governance) and G Taberner (Assistant Director – Resources)

Apologies for absence were received from Councillor B Curran, Councillor S Clement-Jones, Councillor M Stowe and D Patterson.

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Applogies were noted as above.

2 ANNOUNCEMENTS

Tribute was paid and a minute's silence held for former Authority member Councillor Murphy who passed away recently.

The Director reported that at the LAPF awards held in December 2022, the Authority was successful in the "LGPS Fund of the Year over £2.5bn" category. It was also highly commended in two categories at the Pensions for Purpose awards for Impact Investing.

Chair thanked the Officers for their work in securing the awards.

3 URGENT ITEMS

Two members of the public, Mr Henshaw and Ms Cattell had submitted questions directly to the Authority. These were read out for Members and answered by the Director. A copy of the questions and the written responses are available in the appendixes of the minutes.

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

RESOLVED – That item 12 'Border to Coast Strategic Plan' be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST

None

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None

7 MINUTES OF THE MEETING HELD ON

A discussion was held as to the level of detail to be included in agenda item 13.

The Director and Head of Governance will discuss this with the Local Pension Board Independent Advisor. No amendments requested at this time.

RESOLVED – That the minutes of the meeting held on 8th December 2022 be agreed as a true record.

8 CORPORATE PLAN AND MEDIUM TERM FINANCIAL STRATEGY

8a) Feb 2023 Review of the Corporate Strategy 2022/25

The Director presented the 3-year Corporate Strategy update. There had been no substantive changes although there has been a degree of slippage, some of which is beyond the Authority's control. The revised timeline for actions was shown in the report.

The staffing changes agreed at the Staffing Committee in October were designed in part to counter any future slippage of deadlines. Some positive benefits of the changes are already being seen.

Councillor Fisher asked about section 5.5 of the report. Is it expected that Fund Manager fees will reduce because of the updated investment strategy?

The Director responded that as more of the fund's investments are moved into Alternatives, we will be subject to more performance fees. The high fees indicate the fund has been successful in providing a return.

Councillor Nevett asked about the intended increase of Full Time Equivalent (FTE) employees. Does the Authority have the resilience needed to move to 115 FTE from 94 FTE in the next financial year?

The Director replied the increase is designed to add resilience to the organisation. There may be some issues around the capacity to find suitable applicants for some roles. It will be a staggered recruitment process to ease the impact on HR and 3rd party recruitment agencies are also being engaged to help with the process.

Councillor Dimond sought confirmation that Net Zero was still the goal of the Responsible Investment strategy. The Director confirmed that it is.

Councillor Dimond then questioned the strategy to engage with companies that are currently high producers of CO_2 and that in his opinion are not decarbonising quickly enough to reach Net Zero by 2030.

The Director replied, engagement has been the focus of the fund's approach to dealing with this. A decision to commit to a dis-investment strategy is not one the Authority can make alone as its assets are held in pooled funds.

Councillor Dimond asked about staff appraisals. Concern that the information whether staff are receiving appraisals is not available given the importance of regular supervision.

The Assistant Director – Resources replied that currently it is not possible to produce the information in a format that would be useful to Members. The situation is monitored and reviewed and all staff do receive regular monthly meetings with Team Leaders and Managers, a half yearly review in addition to a full appraisal at year end.

Councillor Cox asked about the number of staff who currently Work from Home (WFH).

The Assistant Director – Resources replied that SYPA operates a hybrid working policy. This enables FTE staff to have 3 days per week WFH and 2 days in the office. Part Time staff can have 1 day per week WFH. Several people choose to do more than 2 days per week in the office.

Councillor Cox expressed concern around performance monitoring and data security for staff WFH.

The Assistant Director – Resources confirmed all monitoring standards around performance are maintained and regular face to face meetings are required.

In response to a further point the Director added the security risk has been reduced significantly as no paper files for scheme members are used. Equipment including additional monitors and desks are provided to help staff have a separate workspace where possible. Regular data security training and reminders are given to staff.

8b) Pensions Authority Budget 2023/24

The Assistant Director – Resources presented the operating budget proposals for 2023/24.

The overall proposed total is £6.6 million, an increase of £800k on the current year.

This includes £200k increase in general costs and £600kin the salaries budget. An analysis of the staffing cost increase can be found on page 57 of the agenda.

Page 59 of the agenda presents the detail for the other cost increases. This is subject to change due to estimates of various factors being uncertain. Office accommodation and utility cost increases forms a significant part of this.

In the current year the budget includes a Corporate Contingency budget to cover various costs that were unknown at the time in relation to the Director's review into resilience and sustainability, the pay award for 2022 and the outcome from the pay and benefits review.

These figures are now known and been included in the forecast. Work on the pay and benefits review is now likely to crossover into 2023/24. Consequently, a large underspend is expected from the contingency budget in the current year; it is therefore proposed to carry that over into an earmarked reserve specifically for that purpose. If required it could also be used to cover the costs of a pay award beyond the estimated 2% increase.

8c) Medium Term Financial Strategy 2023/24 to 2025/26

The Financial Services Manager presented the strategy.

External factors like the war in Ukraine and volatile inflation rates are impacting the ability to make accurate forecasts particularly of some of the Fund's cashflows.

The fund's total costs as a proportion of its value continue to show the Authority providing good value for money.

The permitted level of reserves has been increased to 10% as a precaution to the uncertainty noted above.

Councillor Sangar asked why the figure of 2% been used to estimate the pay award and at what point is it anticipated that the funds costs will begin to reduce as a result of pooling?

The Assistant Director – Resources replied to the pay question. 2% is the figure built into the main budget, but as reported previously, there is also the contingency fund if required. The forecast was also done before the Unions had submitted their pay claim for 2023/24.

Councillor Sangar asked if it would be better to factor in 4% and have less of a contingency?

The Assistant Director – Resources replied that historically the Authority underspends on the staff salaries budget, due to turnover of staff and delays in recruitment. It also factors in the phased recruitment of the additional FTE mentioned previously. On this basis it was felt that there were likely to be sufficient compensating savings to fund a higher pay award as had been the case in the current year.

The Director responded to the question around pooling. The Authority was starting from an unrealistically low-cost base and the move of assets away from Listed Equities into Alternatives increases costs due to Alternatives being a more expensive asset class, but one that better meets the requirements of the investment strategy.

The Director added that there is significant pressure across the LGPS that is pushing up costs and is reflected in the uprating budget. The administering of a more complex scheme naturally impacts cost While Governance reporting requirement increases are also a factor and requires additional resources to comply with.

Councillor Nevett asked about utilities costs. Have any changes been made to the budget to factor in the rapid and continued increase?

The Assistant Director – Resources confirmed these had been factored in. Some of the increase in cost has been off-set by a reduction in the cost of the facilities management contract.

Councillor Dimond sought further clarification on the 2% amount used for staff pay award increase in the budget and whether an award at this level was the intention.

The Assistant Director – Resources indicated the inclusion in the budget was not a recommendation or endorsement of the figure; it had been concluded that 2% was the best estimated figure to include in the forecast.

Resolved: Members approved the updated Corporate Strategy (at item 8a), the 2023/24 Authority Budget (at item 8b) and Medium-Term Financial Strategy (at item 8c).

9 TREASURY MANAGEMENT STRATEGY 2023/24

The Financial Services Manager presented the annual report. It has been updated to reflect the Cipfa 2021 code and Prudential 2021 code. The appendices a to c reflect the way the Authority operates comply with the code.

No material changes to previous years strategy. Continue to maintain a relatively liquid cash.

No questions or comments from Members.

10 PAY POLICY STATEMENT

The Director presented a pro-forma report outlining the basis for setting remuneration amounts, particularly for Senior Managers. It also provides the required ratio of Senior Manager to Other staff' level of pay.

It reflects the last pay award and will be updated when a new pay award is agreed and any amendments required from the pay and benefits review.

A revised statement will be brought back to members as and when required.

Councillor Sangar commented he felt significant progress has been made on the issue of pay in recent years. Do we now have the level of pay required to attract people to the various new posts?

The Director replied the evidence suggests in some technical areas; investment, finance and IT the pay scales are significantly behind the labour market. Two roles within the organisation currently receive market supplements as a result and the position is reviewed on a case-by-case basis.

A challenge to recruitment in those areas comes from the job evaluation method. It does not always account for the value the market attaches to the skills and knowledge required for certain roles.

A number of the recommendations in the pay and benefits review could be adopted to mitigate this but is unlikely to resolve the issue entirely.

In response to a request from Councillor Nevett in respect of the data in table 14.1 Employee Pension Contributions, an explanation of the 50/50 scheme was given.

Resolved: Members approved the revised Pay Policy Statement at Appendix A.

11 GOVERNANCE UPDATE

The Head of Governance delivered an update on the actions of the Governance Team since the last meeting and drew attention to the following areas

- The beginning of work by external solicitors to comprehensively review the constitution.
- The completion by all members of the required mandatory training.
- The process to procure a contract for ongoing legal advice.
- An update on a previously reported data breach where the Information Commissioner had indicated that they were content with the Authority's response

Councillor Sangar stated it was very helpful to receive regular refresher training as the duties of members is very different to the work as a Councillor.

Resolved: Members a. Noted the current Authority governance position, including the outcome of the data breach previously reported to the ICO;
b. Welcomed the progress made on training and development of Authority and LPB members
c. Approved the 2023/24 Governance Calendar.

12 BORDER TO COAST STRATEGIC PLAN

The Director presented a report setting out the Border to Coast operating company's Strategic Plan and Budget for the coming year. Following discussion and debate members:

Resolved: Members a. Noted the Strategic Plan and Budget for the period 2023-2026 proposed by the Board of the Border to Coast operating company at Appendix B.
b. Authorise the casting of the Authority's vote in favour of the shareholder resolutions required to approve the Strategic Plan and Budget.

Chair concluded the meeting.

Summary of Agreed Actions.

Agenda Item	Agreed Action	Responsible Officer
3	Issue a written response to scheme member questions	Director
7	Discussion to take place RE: future minutes structure with the LPB Independent Advisor	Director & Head of Governance

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Delivering for our Customers – Corporate Performance Report

Quarter 3 2022/23

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 third quarter of the 2022/23 financial year. More detailed information on the performance of the Authority's investments and the pension administration service during the quarter are contained in other reports which are available on the Authority's website.

2. Headlines

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

Despite market conditions a strong funding level is being maintained	Customer feedback postive ratings have fallen below 90%
Costs, including pay pressure being maintained within budget	Significant decrease in sickness levels
New and additional posts approved to maintain resilience and sustainability and recruitment started	Delays to a small number of Corporate Strategy projects which are being rephased
Regular review of risk register continues to provide assurance that mitigation actions are being effective.	Two new and significant (red ratings) risks added to the risk register. Mitigations identified.

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 2022-2025 was approved in January 2022 and reflects the continuing journey to build a stronger, more resilient organisation focussed on delivering for our customers and reflects what we have learnt from having to adapt the way in which we operate to the Covid-19 pandemic. Our strategy over the next three years focuses on delivering improvements to the way in which we do things in order to ultimately improve the service received by our customers and our overall efficiency.

The Quarter 4 corporate performance report will contain a further update to the Corporate Strategy.

3.3 The detailed objectives and plans have been divided into the following programmes of work.

a) Data – which focuses on a range of data related projects including the valuation and a number of statutory exercises such as GMP rectification and the implementation of the McCloud remedy.

b) Process Improvement – with a particular focus on getting the most out of our investment in technology including automating processes and improving reporting.

c) Investment – which focuses on activity to develop and refine the investment strategy to support the overall funding of the pension scheme.

d) Organisational Infrastructure – which focuses on all those things that make the business work.

3.4 The following tables provide updates in respect of developments that have taken place during the quarter in delivering these programmes of work.

Key to responsible manager abbreviations:

ADIS	Assistant Director – Investment Strategy
ADP	Assistant Director – Pensions
ADR	Assistant Director – Resources
Ben	Service Manager – Benefits
Dir	Director
Fin	Service Manager – Financial Services
Gov	Team Leader – Governance
HG	Head of Governance
ICT	Head of ICT
Inf	Service Manager – ICT Infrastructure
PP	Service Manager – Programmes and Performance
S&E	Service Manager – Support and Engagement

Sys	Service Manager – Pensions Systems
TA	Technical Adviser

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	Quarter 3 Progress Updates	On Track:
Data						
D01	**Complete Valuation 2022**	**Nov-21**	**Mar-23**	**Dir**		
	Data Submission	*Apr-22*	*May-22*	*TA*	*Completed in Quarter 1.*	✓
	Employer engagement	*Feb-22*	*Mar-23*	*S&E*	*Draft results issued to employer and awaiting final data for updates to systems*	✓
	Funding Strategy	*Nov-21*	*Mar-23*	*Dir / ADP*	*Draft Funding Strategy Statement presented to the November Local Pension Board prior to formal consultation with all employers.*	✓
D02	**Guaranteed Minimum Pension – Completion of Rectification process**	Nov-21	Jun-23	*ADP*	*This work has slipped and the final rectification process needs to be undertaken after the annual pensions increase process in order to reduce the risk of key processes failing. Finish date changed to June 2023*	⇔
DO3	McCloud Remedy	**Mar-22**	**Apr-24**	*ADP*		
	Member Communications	*Apr-22*	*Mar-24*	*Cus*	*Newsletters & Annual Benefit Statements contain updates.*	✓
	Employer Communications	*Oct-21*	*Mar-22*	*S&E*	*All employer newsletters issued to date have an update for employers.*	✓
Process Improvement						
P01	**Implement contractual improvements to the Core UPM Pension Administration System**	**Feb-22**	**Mar-25**	*ADP*		
	Review and updating of processes	*Apr-22*	*Mar-24*	*Ben / Sys*	*As reported in the previous quarter the 'Death in Retirement' process has been rebuilt and rolled out with updated requirements for co-habiting partner pensions. This process has subsequently been reviewed and improvements made.*	✓

Ref	Project / Action	Timescale		Responsible Manager	Quarter 3 Progress Updates	On Track:
		Start	Finish			
	Implement dynamic homepage and improve the log in / sign up process for mypension	*Apr-22*	*Mar-23*	*ICT*	*Dynamic homepage utilised for Deferred Annual Benefit Statements.*	✓
PO3	Customer Centre Management Information	Apr-22	Mar-23	Cus	*Weekly reports produced from Horizon.*	✓
	Employer performance	Apr-22	Mar-24	S&E	*A request has been logged to improve the system for monitoring the responses to queries and to improve reporting. A dashboard to monitor performance is in development and Engagement Officers are working with employers to address identified issues.*	✓
P04	**Financial Process Improvements**	**Apr-22**	**Mar-24**	*ADR*		
	Complete the review of the VAT Partial Exemption Special Method	*Jun-22*	*Dec-22*	*Fin*	*Due to other work priorities and staff shortages requiring a focus on recruitment, this has been delayed until now; due to appoint a tax adviser in Q4 to undertake the review.*	⇔
	Review custodian arrangements and procure as necessary	*Feb-22*	*Sep-22*	*ADR*	*A review has been undertaken, involving liaison with other partner funds in the Pool who use custodians. The findings will be discussed, and a plan drawn up for new arrangements - due to take place in the first quarter of 2023/24.*	✓
	Review arrangements for Treasury Management advice and procure as necessary	*Sep-22*	*Mar-23*	*ADR*	*The arrangements for Treasury Management advice have been reviewed and a new contract agreed with the current provider for 2023/24.*	✓
P05	**Certifications aimed at embedding process improvements across the organisation –**	**Apr-22**	**Mar-25**	*Dir*		

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	Quarter 3 Progress Updates	On Track:
	Maintain Customer Services Excellence accreditation	*Apr-22*	*Mar-24*	*Cus*	*3 year review taking place 23/03/23*	✓
Investment						
I01	**Strategic Issues**	**Apr-22**	**Mar-25**	**Dir**		⇔
	Conduct an Investment Strategy review following the 2022 Valuation and update the Investment Strategy Statement	*Apr-22*	*Mar-23*	*ADIS*	*Final report will be taken to Authority meeting in March 2023.*	✓
	Address systemic risks to the fund's investments resulting from climate change through progressing annual updates to the Net Zero action plan.	*Mar-22*	*Mar-25*	*Dir*	*As reported last quarter, Net Zero has been factored into the Strategy Review brief and a steer as to future policy direction has been provided for inclusion in annual revision of policies. This will be included in the final report to introduce new investment strategy from April 2023*	⇔
	Implement new requirements related to TCFD Reporting	*Apr-22*	*Ongoing*	*Dir / ADIS*	*Working group has been established with Border to Coast and other funds to produce a template of information for Border to Coast to provide to funds.*	✓
I02	**Tactical and Transactional Issues –**	**Apr-22**	**Ongoing**	*ADIS*		
	Implement revisions to the Strategic Asset allocation	*Apr-22*	*Ongoing*	*ADIS*	Ongoing rebalancing being undertaken to address both cash requirements and the impact of individual portfolio performance.	✓
	Determine the approach to the Border to Coast property proposition and transition assets as necessary	*Mar-22*	*Dec-24*	*Dir / ADIS*	Global proposition is now in the pre-launch phase. However, further work and debate with Members is likely to be required for the UK proposition.	⇔

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	Quarter 3 Progress Updates	On Track:
	Conclude Project Chip	*Sep-21*	*July 23*	*Dir*	Progress continues with both the due diligence process and the work on legal structuring, with tax advisers now appointed and working on the details. Completion now targeted prior for June / July 2023 due to other parties' governance timelines	⇔
	Review legacy portfolios and determine the ultimate exit routes in each case	*Apr-22*	*Dec-22*	*ADIS*	No progress so far due to other priorities and this is a lower priority piece of work.	✘
	Continue to develop stewardship reporting in response to regulatory feedback	*Apr-22*	*Ongoing*	*ADIS*	Separate Stewardship Code report submitted to the FCA following external review (and available on the website). FRC response expected in Feb or March 2023.	✓
Organisation						
O01	**Governance –**	**Dec-21**	**Mar-25**	*ADR*		
	Review and update information governance arrangements	*Jun-22*	*Mar-23*	HG	*Work is under way on the detailed review of existing arrangements and commencing to plan changes and updates to policies and procedures where required. This is a substantial project that will cross over into 2023/24.*	⇔
	Complete roll out of workflows etc. within Modern.gov and implement paperless meetings	*Apr-22*	*Jun 22*	*Gov*	*It was not possible to meet the original target timescale for this; however work is progressing well during 2022/23 and the new target timescale for fully paperless Authority, Committee and Board meetings to be implemented is June 2023.*	✘

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	Quarter 3 Progress Updates	On Track:
	Implement new statutory officer arrangements and internalise committee and member support activity	*Apr-22*	*Mar-23*	*Dir / ADR*	*As previously reported, the role of Monitoring Officer is now being undertaken by the Head of Governance with effect from 1 January 2023 as a result of changes at BMBC. Other activities are progressing in line with the plan.*	✓
	Update procurement arrangements, processes, and systems including the implementation of the YORtender replacement	*Apr-22*	*Jun-23*	*Gov*	*Work on this objective is progressing well. A new 'gateway approval' document to guide staff and maintain appropriate audit trail has been developed and is being reviewed by internal audit prior to being rolled out. On track for June 2023 target.*	✓
O02	**People –**	**Jan-22**	**Ongoing**	***SMT / HR***		
	Procure and implement a new HR and Payroll System	*Jan-22*	*Mar-23*	*Dir / HR*	*The target date for this objective has had to be revised to completion by March 2024 due to impact of other workload pressures and priorities on the lead officers for this project.*	✗
	Address currently identified recruitment and retention risks	*Jan-22*	*Dec-22*	*Dir/HR*	*The appointed consultants undertook the Pay and Benefits review in quarter 3 and reported to management in mid-December. More work to be completed on the detailed implications.* *Recruitment started as a result of the Organisational Resilience and Sustainability approved by Staffing Committee in October.*	✓
O03	**ICT –**	**Jun-21**	**Mar-25**	**ICT**		

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	Quarter 3 Progress Updates	On Track:
	Complete the roll out of Microsoft 365 tools and the migration to 365 infrastructure	*Jun-21*	*Sep-22*	*ICT*	*As reported in last quarter, MS Teams telephony business case developed; deployment of additional Microsoft 365 apps for relevant users (including Visio, MS Project, and Planner).*	✓
	Implement the updated corporate website	*Nov-21*	*Ongoing*	*ICT*	*As reported in last quarter, website updated to include frequently searched items and promote the retire online process. Self-help videos added.*	✓
O04	**Project and Programme Management**	**Jun-22**	**Mar-23**	***Dir / ADP***		
	Determine a stripped down and appropriately scaled programme and project management process	*Jun-22*	*Mar-23*	*PM*	*Service Manager - Programmes and Performance has started working on 'Project Management - the SYPA Way' - a 'right-sized' methodology for SYPA with associated documentation.*	✓
	Initiate a clearly defined process for prioritising and agreeing development and other system change requests	*Jun-22*	*Mar-23*	***ADP***	*An electronic system for submitting requests has now been established and requests are reviewed and prioritised by a 'UPM Oversight Group'.*	✓

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 October to December quarter is as follows.

Measure	Quarter 3 2022/23	Quarter 2 2022/23	YTD 2022/23	Performance in Previous Year Q3: 2021/22	Movement from Previous Quarter
Short Term Sickness Absence – Days Lost per FTE	0.96	1.24	2.93	0.94	↓
Long Term Sickness Absence – Days Lost per FTE	0.98	2.05	3.73	0.47	↓
Total Days Lost per FTE	**1.94**	**3.29**	**6.66**	**1.41**	↓

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 a significant decrease in short term and long term sickness absence from the previous quarter mainly due to the fewer Covid cases and a couple of people on long-term sickness absence returning to work.

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 3 2022/23	Quarterly Benchmark	Performance YTD 2022/23	2022/23 Benchmark	2022/23 Actuarial Target	RAG Indicator
Investment Return – Whole Fund	1.00%	1.20%	-5.20%	-7.00%	3.76%	

4.8 Performance against benchmark is positive in the year to date but due to weakness in most bond and equity markets this return is behind the actuarial target for this year.

4.9 The total Fund value at 31 December 2022 was £10.014bn

4.10 The Funding Level at 31 December 2022 is estimated at 153%. Although the valuation of the assets has fallen, due to rates being higher the discounted valuation of the liabilities has fallen more.

4.11 At the end of the quarter, 69.6% of the Fund's assets were being managed in pooled structures provided by Border to Coast.

Pension Administration Measures

4.13 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 3 2022/23	Quarter 2 2022/23	YTD 2022/23	Previous Year: 2021/22	Target 2022/23	Movement Year on Year
Proportion of priority cases processed on time	71%	82%	79%	85%	100%	↓
Proportion of non-priority cases processed on time	70%	65%	73%	73%	100%	↑
Proportion of all cases processed on time	70%	67%	68%	74%	100%	↑
Proportion of employer data submissions on time	c. 95%	c. 95%	99%	99%	100%	↔

4.14 The reduction of priority cases processed on time is largely due to retirement cases that have had long overall process times due to requesting information from members or employers. There has been a rise in non-priority case completion times. The aggregation backlog saw some improvements and the team worked on new aggregations as they were received. Work has subsequently commenced to develop a more concerted plan to address backlogs across the service so that these do not interfere with ongoing routine incoming work.

4.15 The proportion of employer data submissions has remained at the same level since last quarter. The new MDC team will give this area of work more scrutiny and focus and will be working closely with the Engagement Officers on a more targeted approach to resolving issues.

4.16 At the end of the quarter, membership of the Fund stood at 175,002.

4.17 Two new employers were admitted to the scheme, and no terminations were completed during the quarter.

4.18 There were 546 participating employers with active members at 31 December 2022.

Financial Measures

2022/23 Q3 Forecast Outturn

4.19 The quarter 3 forecast expenditure and variance against the revised budget is as follows. Details of the significant variances are shown beneath the table.

South Yorkshire Pensions Authority Operational Budget	2021/22 Actuals £	2022/23 Revised Budget £	2022/23 Q3 Forecast £	2022/23 Q3 Forecast Variance £	2022/23 Q3 Forecast Variance %
Pensions Administration	2,500,610	2,717,850	2,659,460	(58,390)	(2.10%)
Investment Strategy	565,090	537,340	515,370	(21,970)	(4.10%)
Finance & Corporate Services	772,420	858,800	888,020	29,220	3.40%
ICT	635,850	738,710	717,180	(21,530)	(2.90%)
Management & Corporate	423,050	906,570	740,090	(166,480)	(18.40%)
Democratic Representation	124,020	137,090	145,450	8,360	6.10%
Subtotal - Cost of Services	**5,021,040**	**5,896,360**	**5,665,570**	**(230,790)**	**(3.90%)**
Capital Expenditure Charge to Revenue	1,546,930	0	64,720	64,720	100.00%
Subtotal before transfers to reserves	**6,567,970**	**5,896,360**	**5,730,290**	**(166,070)**	**(2.80%)**
Appropriations to / (from) Reserves	(1,122,370)	(66,360)	99,710	166,070	
Total	**5,445,600**	**5,830,000**	**5,830,000**	**0**	**0.00%**

4.20 The forecast outturn for the year before transfers to reserves is an under-spend of (£166k) compared to the forecast underspend of (£148k) at the end of the previous quarter.

2022/23 Corporate Contingency Budget

4.21 Within the totals shown in the table above for Management & Corporate, an under-spend of (£188k) is expected on the corporate contingency budget that was included here this year for the purpose of meeting the costs associated with the 2022/23 pay award, outcomes of the pay and benefits review, and also any costs arising in this year from the recommendations to be made by the Director regarding creating a resilient organisation for the future.

4.22 The pay award for 2022/23 was agreed by the National Joint Council (NJC) in November at an amount of £1,925 on all NJC pay points with effect from 1 April 2022. This was implemented and arrears paid in December 2022 and all costs arising from this are built into the employee costs for this year included in the forecast expenditure within each of the service areas shown in the table above.

4.23 The additional cost arising from this is approximately £219k, equivalent to 5.7% of the budget for employee pay and on-costs. However, as a result of taking longer than planned to recruit to a number of new posts that were included in the budget this year and impact of staff turnover; this additional pay award cost can be met from the existing pay budgets without the need to draw on the corporate contingency budget for this purpose.

4.24 In addition, the Director presented a set of recommendations regarding building organisational resilience for the medium term and ensuring appropriate succession planning and these were approved by the Staffing, Appointments and Appeals Committee in October 2022. This resulted in the approval of a number of new roles to be established and recruited over a three-year period, with some of these to be recruited during 2022/23 if possible. Costs of these new posts, where falling in 2022/23, have likewise now been incorporated into the forecast expenditure within each service area and this has not required any draw down from the corporate contingency budget.

4.25 The approved Corporate Strategy and HR Strategy for this year included an objective to commission an independent review of the Authority's pay and benefits structure. This review was completed in December 2022, resulting in findings that now need to be considered in further detail and further work carried out on planning actions to address the findings. At this stage, it is anticipated that there will be no further costs in the current financial year.

4.26 Instead, there will be a need to carry forward the unspent corporate contingency budget to provide resources required in 2023/24 to meet implementation costs of any changes and actions agreed from the further work to be carried out. Therefore, it is proposed to create a new earmarked revenue reserve specifically for this purpose – a Pay and Benefits Reserve – into which an amount of £200k will be transferred at the end of this year from the total budget under-spend. The funds in this reserve will then be available to be used in 2023/24.

2022/23 Forecast and Explanation of Variances

4.27 The significant variances against budget for each of the service areas are explained below.

4.28 <u>Pensions Administration – Forecast Under-Spend (£58k):</u>

4.29 The employee costs budget included a full year budget for some vacant posts due to be recruited, including a Communications Officer, an additional benefits team Senior Practitioner and 3 FTE Pensions Officers. These posts took longer than planned to recruit, resulting in vacant posts for several months and an under-spend of (£107k) arising from this.

4.30 Some of this under-spend is being used to cover costs of staff overtime being worked to cover absences and to make some progress on backlogs and will also be used for the costs in March 2023 of employing an Interim Assistant Director – Pensions. The total of overtime and interim cover costs is £37k.

4.31 There has also been some turnover in staffing this year, resulting in a forecast under-spend of (£69k).

4.32 The forecast additional cost for this service area of applying the pay award for 2022/23 is £111k. This is more than offset by the under-spends above, resulting in a total forecast net under-spend on staffing costs of (£28k).

4.33 Costs relating to travel expenses, hotel accommodation etc. are forecast to be (£11k) under budget, reflecting the continued move towards greater use of virtual and remote, online approach for conferences, courses, meetings etc. These budget lines have been reduced in next year's budget.

4.34 The training budget is forecast to be under-spent by (£5k); there has been an improvement in use of the Pensions Admin training budget this year – with several places for individuals on external courses purchased as well as some training run in-house for us by the LGA on technical pensions issues.

4.35 There is a forecast over-spend of £25k on the budget for medical reports required in relation to ill health cases and appeals. This is in large part due to an increase in the rates we are charged for these reports – which were reviewed and uplifted this year after a number of years without an increase. It is also partly due to the volume of reports required this year – which is demand-driven and therefore difficult to predict.

4.36 The budget for benchmarking exercises in pensions admin has not been used in year, resulting in an under-spend of (£16k). Plans are in place to ensure the benchmarking is undertaken in 2023/24.

4.37 An under-spend of (£23k) is currently forecast on legal, consultancy and corporate subscriptions fees based on the expected activity and requirements for this year.

4.38 <u>Investment Strategy – Forecast Under-Spend (£22k):</u>

4.39 The forecast additional cost for this service area of the 2022/23 pay award, is £13k.

4.40 An under-spend of (£2k) is forecast on indirect employee costs relating to travel, training, etc.

4.41 The budget for actuarial fees is forecast to be (£12k) under budget for the year, due to the change in charging structure arising from the change in actuary which has meant that fees for dashboard access for funding level forecasting are not charged separately but are instead covered within the main costs for the contract, which are charged to the Pensions Administration budget.

4.42 An under-spend of (£21k) is currently forecast on legal, consultancy, corporate subscriptions and other professional fees based on the expected activity and requirements for this year.

4.43 <u>Finance & Corporate Services – Forecast Over-Spend £29k:</u>

4.44 There is a total net over-spend of £3k forecast on staffing costs which comprises the following items:

a) The forecast additional cost for this service area of the 2022/23 pay award is £40k.

b) The Authority approved an addition of 1 FTE Senior Finance Officer to the establishment at their March 2022 meeting, after the budget for the year was set. The additional cost for this is £38k.

c) The employee costs budget includes two FTE business support officers. However, following one of these officers being promoted internally, it was decided not to fill the resulting vacancy currently as there was no longer a need for this resource at this level in the team. The second business support officer left in July 2022 and the first attempt at recruitment to this post was unsuccessful, so we have decided to keep this vacancy on hold for the time being. There is therefore an under-spend of (£45k) forecast relating to these two posts.

d) There is also a net under-spend of (£30k) forecast on staffing costs in this service area relating to turnover and in particular, delays arising from the difficulty in recruiting to the Finance Team Leader post – which was planned for being in post from May 2022 but in practice took three attempts to recruit successfully and therefore only started in post from September 2022.

4.45 The recruitment budget is over-spent by £17k due to having required the services of a specialist agency for the Finance Team Leader recruitment in the early part of the year as previously reported (resulting in a successful appointment in September) and further use of this agency in the final quarter of the year for assistance with recruitment of two Transactions Officers.

4.46 The training and conferences budget is over-spent by £5k this year – mainly as a result of costs relating to professional training for the year being a little higher than expected due to supporting a larger number of the Finance team to undertake finance qualifications and other accredited training for members of the Governance team.

4.47 An over-spend of £2k is forecast on the budget for corporate subscriptions which is due to having joined additional CIPFA networks during the year to provide us with access to expert resources and support for a range of activity including Governance, Insurance, and Procurement, as well as discounted prices for training courses run by these networks.

4.48 <u>ICT – Forecast Under-Spend (£22k):</u>

4.49 The forecast additional cost for this service area of applying a pay award as detailed in paragraph 4.24, is £14k.

4.50 There is an under-spend of (£9k) on staffing costs forecast relating to the budget for an apprentice, which is now not going to be used in 2022/23.

4.51 The training budget is forecast to under-spend by (£5k) based on projecting from previous year actuals, but this will be kept under review with greater encouragement and support for training being provided.

4.52 At this stage in the year, a net under-spend of (£7k) is forecast on the budgets for various software systems, and wider IT infrastructure. This includes an under-spend for the pensions administration software system, UPM, where we had budgeted for some potential costs for new developments to the system that are now not likely to be delivered in this year.

4.53 There is additional income of (£15k) more than budgeted, this relates mainly to fees generated from development work carried out on in-house systems sold to other pension funds.

4.54 <u>Management and Corporate – Forecast Under-Spend (£166k):</u>

4.55 The corporate contingency budget, as outlined in paragraph 4.21 above, is under-spent by (£188k), and is proposed to be transferred into an earmarked reserve at the end of the year to be used as required in 2023/24 on costs arising from addressing findings of the pay and benefits review.

4.56 The forecast additional cost for this service area of the 2022/23 pay award is £7k.

4.57 The budgets for the new posts of Service Manager – Programmes and Performance and Programmes and Performance Officer are forecast to be under-spent by (£31k) as a result of the time taken to recruit to these posts. The manager post was filled from August 2022 and the officer post from October 2022.

4.58 There is a net over-spend of £29k arising from numerous smaller variances on budget items for legal fees, consultancy, facilities management and other professional fees. One of the main elements in this relates to the costs of undertaking the review of the Constitution and the estimated proportion of fees that will arise for work done to the end of March; this will be funded from the corporate strategy reserve.

4.59 Accounting standards require us to allocate our lease rental costs for the office building on a straight-line basis over the life of the lease rather than simply charging the annual lease rent paid in year – which in these early years of the lease is at a reduced amount. The cost of this accounting adjustment was omitted when setting the budget so there is a forecast over-spend of £41k for this in year- however this will be met from earmarked reserves.

4.60 The corporate training budget is now being more actively used with various training programmes, LinkedIn Learning, and centrally organised courses going ahead. However, there is an under-spend forecast of (£24k) on this budget for this financial year.

4.61 Democratic Representation – Forecast Over-Spend £8k:

4.62 The budget for members' allowances is forecast to be over-spent by £3k following the implementation of the increase to allowances in 2022/23 which was set at 4.04% in line with the headline pay award increase as a percentage for Local Government staff agreed by the NJC.

4.63 The training budget for member training is over-spent by £5k reflecting the costs of undertaking the national knowledge assessment and commissioning some specialist advice from Hymans Robertson to support the planning and work being undertaken on member learning and development, in addition to the costs of the LGPS Online Academy and costs of individual courses and events held in the year.

4.64 Capital Expenditure – Forecast Over-Spend £64k:

4.65 The over-spend against the budget for capital expenditure in 2022/23 is really just a timing difference in works being completed. As previously reported, the outturn position for the 2021/22 year included an under-spend on capital expenditure that was due to delays arising from global supply chain issues which meant that the final stage of the AV installation works at Oakwell House could not be completed until May 2022. The cost of this in 2022/23 is £34k, and there is a further £30k relating to some final outstanding pieces of work completed in the first half of this year by the main contractor for the office works. The majority of this spend relates to the installation of fire-safety rated glazing in the windows closest to the fire escape, which was a safety requirement.

Earmarked Reserves

4.66 The Authority until now has had three earmarked reserves, the Corporate Strategy reserve, the ICT reserve, and the Capital Projects reserve.

4.67 As explained in para 4.26 above, a new 'Pay & Benefits' revenue reserve is to be created this year to set aside funds from the unspent corporate contingency budget in order to be used in 2023/24 to resource the implementation of changes and actions to be agreed following further work on the findings from the pay and benefits review.

4.68 The table below shows the forecast transfers to and from all four of the earmarked reserves in 2022/23.

4.69 The planned transfers into and out of the Corporate Strategy reserve are to meet costs associated with areas such as the investment strategy review, which is undertaken every three years based on the triennial valuation, the lease rent accounting adjustment, providing for the costs of the retentions scheme this year, and setting aside funds from under-spends that will be allocated to costs of delivering corporate strategy plans in future.

4.70 The ICT reserve transfers relate to setting aside the income from software sales and funding the costs of developments on areas such as the pensions administration software system.

4.71 The transfer into the Capital Projects reserve is to set aside funds for the hardware replacement programme, and the transfer out of this reserve is to finance the capital expenditure incurred this year.

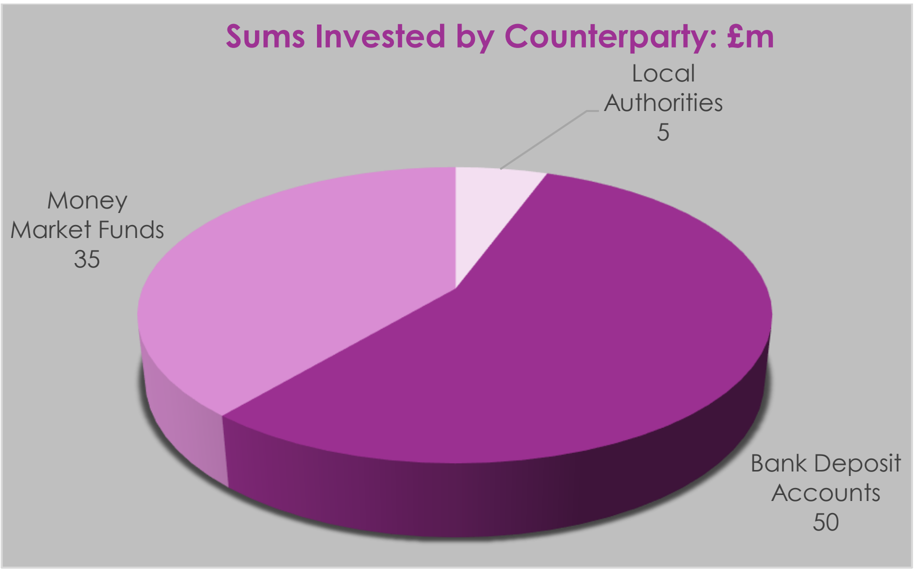
4.72 The result of the above is a net total transfer into reserves of £99,710.

Reserves	Balance at 01/04/2022 £	Transfers In £	Transfers Out £	Forecast Balance at 31/03/2023 £
Corporate Strategy Reserve	143,840	19,630	(85,360)	78,110
ICT Reserve	205,950	14,950	(20,000)	200,900
Pay & Benefits Reserve	0	200,000	0	200,000
Subtotal: Revenue Reserves	**349,790**	**234,580**	**(105,360)**	**479,010**
Capital Projects Reserve	139,110	35,210	(64,720)	109,600
Total Reserves	**488,900**	**269,790**	**(170,080)**	**588,610**
Net Total Transfer		**99,710**		

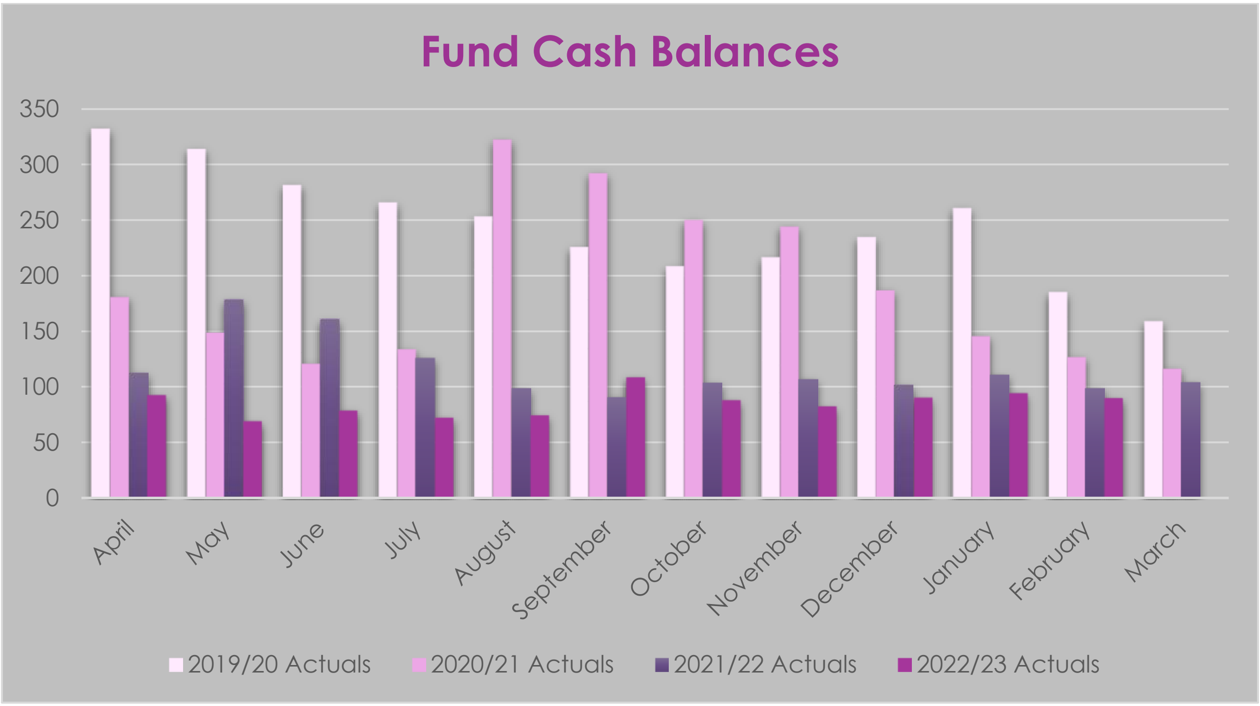
4.73 The forecast balance of the revenue reserves following the transfers proposed for the year, to be carried forward to the next financial year is £479k in total, equating to 8.2% of the Authority's total revenue budget, which falls within the limit of 10% that we set for ourselves in the Medium-Term Financial Strategy for 2023/24 onwards.

Treasury Management

4.74 The Fund's cash balances at 31 December 2022 stood at £90.2 million. The chart below shows how the balances have been invested with different counterparties in line with the approved treasury management strategy for the year.



4.75 The following chart shows the movement in cash balances held for the current year to date and the previous three financial years.



4.76 Cash is only held pending Fund investment and the balance of cash at the end of the quarter represents 0.9% of the Fund, compared with 1.1% at 30 September 2022.

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 February 2023. There following changes were made to risk scores from this review.

Risk G1 – Failure of members of the Authority to maintain adequate levels of knowledge and understanding. Current risk score reduced from 12 to 9.

5.3 All members of Authority are 100% compliant against mandatory training requirements. However, given the local elections may bring about changes in membership in the new municipal year further mandatory training will be required with new members to ensure the Authority maintains this overall baseline of knowledge and understanding.

Risk G2 – Failure of members of the Local Pension Board to maintain adequate levels of knowledge and understanding. Current risk score reduced from 9 to 6.

5.4 All members of LPB are 100% compliant against mandatory training requirements, and membership of the Board is inherently more stable than the Authority reducing the risk of the aggregate knowledge level falling back due to changes in membership. The significant progress made justifies a reduction to the target level score for this risk.

New Risks Added:

Risk P2 – Reduced levels of technical knowledge and senior management capacity during period of vacancy.

5.5 This is a new risk and has a high risk score at 20 (red). An interim Senior Manager focussed on delivering key pieces of work has been appointed. In addition, a robust recruitment process will be set up and delivered as soon as practical including use of executive search.

Risk O5 - Change to the CARE Revaluation date to bring it in line with the tax year.

5.6 This is a new risk and has a high risk score at 20 (red). The Director is inputting to the LGA response to consultation on change of revaluation date highlighting the regulatory and reputational impacts of this risk materialising. Further mitigation includes the identification of additional resources and/or workarounds to ensure delivery of statutory obligations.

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 Q3 2022/23	Received in Q2 2022/23	Received YTD 2022/23	Received in Previous Year: Full Year 2021/22
Complaints	3	4	11	24
Appeals Stage 1	2	1	2	4
Appeals Stage 2	1	2	4	4

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

6.3 There has been a slight reduction in overall complaints from the previous quarter. None of the complaints raise systemic internal issues. However, there is an underlying theme about the timeliness of responses which will be followed up

6.4 The table below provides a summary of the three complaints received in the reporting period and an indication of whether the causes of complaint indicate a wider process issue which may need review/improvement.

Ref	Complainant	Nature of Complaint	Response issued within target response time?	Responsible party	Follow up actions required/taken?
C98	Active Member	Member was unhappy with the amount of time it took to process her ill health retirement. There was some initial confusion between the Customer Team and herself as she had originally started an early retirement request.	Yes	SYPA/ Employer	Miscommunication with Customer team added a minor delay to processing time however the Employer caused longer delays as they didn't notify us of the ill health retirement or send the termination notice in a timely manner which led to further delays with forms etc
C99	Retiring Member	Member wasn’t aware the timeframe for Ben10 protection hadn't been extended	Yes	Employer	Member thought Employer was extending the 10 year period however we haven't received any notification of this
C100	Retiring Member	Member unhappy due to delays with processing retirement request	Yes	Employer	This was caused by long delays with obtaining the correct information from the Employer

6.5 Two Stage 1 Appeals were determined during the quarter.

6.6 There was one Stage 2 Appeal determined in this quarter. The Appeal was against the level of award of ill health benefits and was not upheld. There are no particular learnings from this case as all training for employers in relation to the ill health process emphasises the need for cases to be dealt with promptly and this will continue to be reinforced with employers through ongoing engagement activity.

Breaches of Law and Regulation

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

6.8 There was one breach recorded in the quarter. Details of a change of address were incorrectly entered into the system resulting in a retirement quote being sent to the wrong address. The details sent to the wrong address were retrieved and the information sent to the member at the correct address.

6.9 This incident is human error and while we have taken steps to reduce the likelihood of the wrong paperwork being put into an envelope, our reliance on the manual transfer of data (in this case from an e mail) into UPM where members do not use the online facilities does mean that it is extremely difficult to eliminate this particular risk, although emphasis is put on the need for staff to check their own work in these circumstances and this will be re-emphasised. This case was not reported to the relevant regulator having been reviewed in line with the relevant policies.

Cyber Security Incidents

6.10 In addition to the more routine breaches there were 4 cyber security incidents during the quarter all of which stemmed from phishing attacks. In two of the cases staff clicked on links which could have been harmful, however, in both cases the Authority's security software stopped damage occurring. In both these cases the staff involved were given individual advice about how to identify potential phishing attacks (and one of these staff members subsequently identified one of the other potential attacks). In all cases following the incident the ICT Team circulated details to all staff to highlight the type of e mails that could be a phishing attack and blocked the originating e mail address. All staff have now undertaken an online course to enable them to recognise and address phishing attacks.

Satisfaction Surveys

6.11 A customer centre survey found that 81% of the 243 respondents were satisfied with the service they received.

6.12 A survey of members retiring during August to October 2022 showed that of the 91 respondents, 97% were satisfied with the service they received.

6.13 The results of the satisfaction surveys have been the subject of a more detailed report to the Local Pension Board, including actions being taken, and this was discussed at the Board's February meeting.

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South Yorkshire Pensions Authority Risk Register As At

20 February 2023

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

Risk scores changed since last review:

Risk No	Risk Type	Risk Title	Prev Score	New Score	Risk Change at Review
G1	Governance	Failure of members of the Authority to maintain adequate levels of knowledge and understanding	12	9	
G2	Governance	Failure of members of the Local Pension Board to maintain adequate levels of knowledge and understanding	9	6	
P2	People	Reduced levels of technical knowledge and senior management capacity during period of vacancy	N/A New Risk	20	
O5	Operational	Change to the CARE Revaluation date to bring it in line with the tax year	N/A New Risk	20	

Appendix A

SOUTH YORKSHIRE PENSIONS AUTHORITY RISK REGISTER

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	Head of 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 to complete knowledge assessments for all members. Examination of additional bite size learning options. Members have completed the majority of mandatory training required by December 2022.	**9**	P=M I=M	**6**	P=L I=M	Provide further internal seminars and examine options for more individualised "tuition". ***Comment 20/02/2023*** **:** *All members of Authority are 100% compliant against mandatory training requirements however given the municipal year changes in members in early spring further mandatory training will be required with new members to ensure the Authority has 100% compliance.* *2023/24 will focus heavily on enhancing the knowledge and skills of the Authority with many changes expected to the pensions landscape i.e. McCloud, Pensions Dashboard, TPR, Good Gov Code and the Procurement Bill.* *Changes to the Chair and Vice Chair in 23/24 will require additional support and training with individuals in these roles to ensure a seamless continuation of assurance, monitoring and scrutiny from the Authority.* *The significant progress made in this area justifies the impact score to be reduced to Medium.*	Head of Governance		20/02/2023
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.	Head of 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	**6**	P=L 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 20/02/2023:*** *All members of LPB are 100% compliant against mandatory training requirements.* *2023/24 will focus on seeking assurance that the knowledge and skills is improved with the changing landscape detailed below i.e. McCloud, Pensions Dashboard, TPR, Good Gov Code and the Procurement Bill.* *Bespoke training has been identified to enhance LPB members knowledge;* *Employer responsibilities and employer risk* *Responsible investment with the wider framework* *Administration performance and improving LPB understanding of how to interrogate data* *Cyber Security/Risk management and measurement of tolerance* *The significant progress made justifies a reduction to the target level score for this risk*	Head of Governance		20/02/2023
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.	Director	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	**6**	P=L I=M	**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 Internal audit work in the year and other sources of assurance such as the actuary's review of valuation data continue and indicate that any potential control failure is unlikely to fundamentally destabilise the organisation. ***Comment 20/02/2023:*** *This risk was reduced at the last review, there has been no further change to the last reported position and therefore no justification to reduce the score further.*	Assistant Director Resources		20/02/2023

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. Appointed to redefined role	12	P=M I=H	6	P=L I=M	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 06/02/2023:*** *The Corporate Strategy target date for the Project Management Toolkit implementation has been amended to May 23. Work is underway on developing a document called 'Project Management - The SYPA Way' which is outlining a 'right sized' approach to project management depending on the scope and complexity of each project. A suite of supporting documentation and templates are also being designed and tested. 'Critical friend' support is being offered by a Principal Auditor from BMBC.* *There is no justification at this stage for a further reduction in the score however it is expected that this will reduce at the next full review.*	Service Manager - Programmes and Performance		06/02/2023
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	Assistant Director 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.	12	P=M I=H	9	P=M I=M	Ability to implement protection strategies if market circumstances indicate they are appropriate. ***Comment 16/11/2022:*** *There is still a potential of high impact due to market movements. There is no justification to reduce the risk score further at this stage.*	Assistant Director Investment Strategy		20/02/2023
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. Analysis of end of year climate data to gain a detailed understanding of the current emissions trajectory. ***Comment 20/02/2023:*** *There remains no basis for adjusting this score down however, there is the potential for this to change following outcome of the Investment Strategy review.*	Director		20/02/2023
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 Programme of specific risk mitigations agreed as part of the 2022 - 2025 Strategic Plan and Budget	9	P=M I=M	6	P=L I=M	Ongoing monitoring of Programme of specific risk mitigations set out in 2022 - 2025 strategic plan. ***Comment 20/02/2023:*** *The Authority is due to review the Strategic Plan and next stages in risk mitigation strategy at which point there may be a change to the score. There is no justification to reduce the risk score at this stage*	Director		20/02/2023

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.	Assistant Director Investment Strategy	Maintenance of "cash buffer" of liquidity sufficient to cover more than one monthly payroll. Process for monitoring and forecasting cashflows	5	P=VL I=VH	5	P=VL I=VH	Further improvements in cashflow forecasting,. Implementation of strategies to more regularly harvest income from investments. ***Comment 20/02/2023:*** *The risk is at the target score. It will however remain on the register as the position can fluctuate and requires monitoring*	Assistant Director Investment Strategy		20/02/2023
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 20/02/2023:*** There is no *justification for reduction of the risk score at this stage. Following the valuation results the impact in the overall funding position has resulted in a number of smaller employers without a guarantee engaging in discussions over exit from the fund. These employers represent those for whom affordability is the most significant issue and facilitating their exit will ultimately reduce this risk.*	Director		20/02/2023
O1	Operational	Failure to maintain effective cyber defences	Significant disruption to the provision of services. Loss / unauthorised release of key data.	Head of ICT	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. Cyber Security Essentials Plus Certification	16	P=H I=H	12	P=M I=H	Additional testing of disaster recovery arrangements ***Comment 20/02/2023:*** *There is no justification for a reduction in the risk score at this time, despite the recent implementation of a new phishing attack prevention solution.*	Head of ICT		20/02/2023
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.	Assistant Director Pensions	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 20/02/2023:*** *Work continues to progress data cleansing work however there is no justification for a change in risk score at this stage.*	Assistant Director Pensions		20/02/2023
O3	Operational	Data Protection and GDPR	Unauthorised release of personal data. Action by the Information Commissioner.	Assistant Director Pensions	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 20/02/2023:*** *The DPIA and ISA have been approved by SMT* *The Information Governance action plan is progressing and the Governance Team are working closely with Internal Audit at each stage of review.* *The Data Protection Policy has been reviewed and this, along with revised Data Breach, DSAR and Data Moderation Panel documents are with Internal Audit for review and will be presented to SMT once comments have been received.* *There is no change in the risk score at this stage however work over the next 3 to 6 months should see a reduction.*	Assistant Director Pensions		20/02/2023

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 20/02/2022:*** *There is no change to the risk score at this stage, confirmation of the release date of the Single Code is still awaited.* *Plans are however being made to ensure that appropriate training for Authority and Board members is available at the appropriate time.* *External training will be identified and delivered to fully brief members on the changes to the TPR Code of Practice.*	Head of Governance		20/02/2023
O5	Operational	Change to the CARE Revaluation date to bring it in line with the tax year	Inability of software suppliers to deliver amended software on time impacting the ability to deliver Annual Benefit Statements (ABS) and Pensions Saving Statements (PSS) in line with statutory deadlines	Director	Management of the ABS and PSS processes as distinct projects subject to detailed planning and resourcing processes Engagement between DLUHC and software suppliers	**20**	P=VH I=H	**4**	P=L I=L	Input to LGA response to consultation on change of revaluation date highlighting the regulatory and reputational impacts of this risk materialising. Identification of additional resources and/or workarounds to ensure delivery of statutory obligations.	Director		20/02/2023
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 20/02/2023:*** *Output from pay and benefits review is currently being examined in order to identify specific proposals for consideration by the Authority. In the interim specific risk issues are being dealt with on a case by case basis using existing mechanisms and delegated power.* *The score remains unchanged at this stage.*	Director		20/02/2023
P2	People	Reduced levels of technical knowledge and senior management capacity during period of vacancy	Impact of a period of vacancy at senior management level reducing the ability of the organisation to deliver on key projects and potential inability to address certain technical issues.	Director	Interim management arrangements involving the whole of the Senior Management and other managers making best use of available capacity Identification and prioritisation of key projects	**20**	P=VH I=H	**9**	P=M I=M	Appointment of an interim Senior Manager focussed on delivering key pieces of work Set up and deliver a robust recruitment process as soon as practical including use of executive search	Director		20/02/2023

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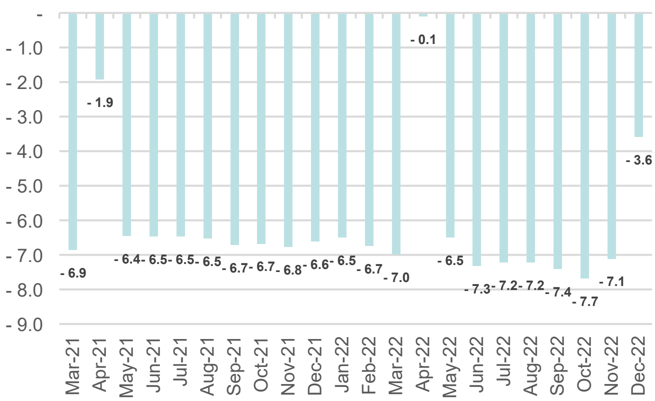
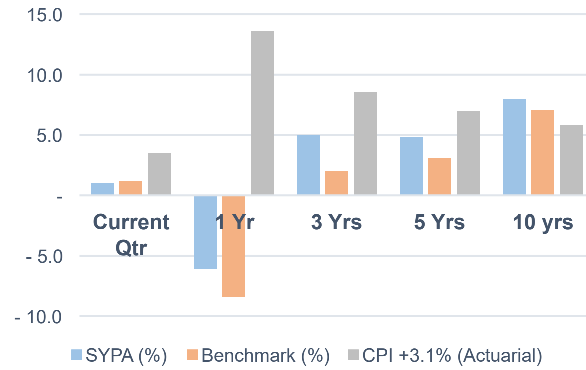
QUARTERLY REPORT
TO 31 DECEMBER 2022

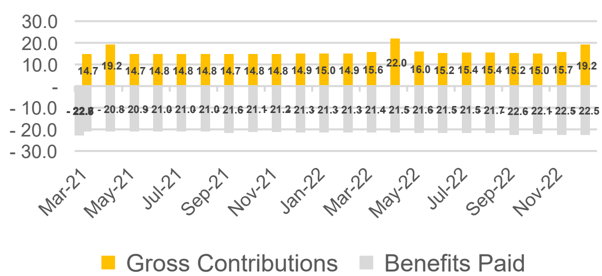
NET CONTRIBUTIONS



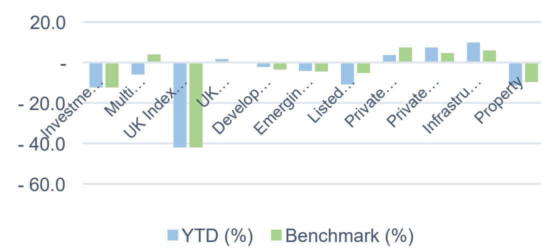
TOTAL FUND RETURN



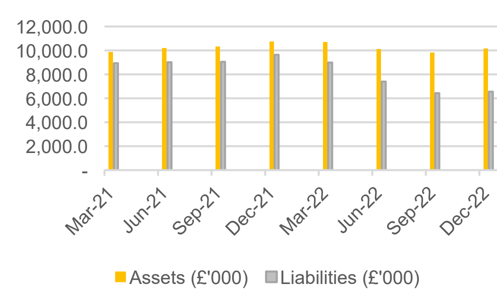
BREAKDOWN OF NET CONTRIBUTIONS



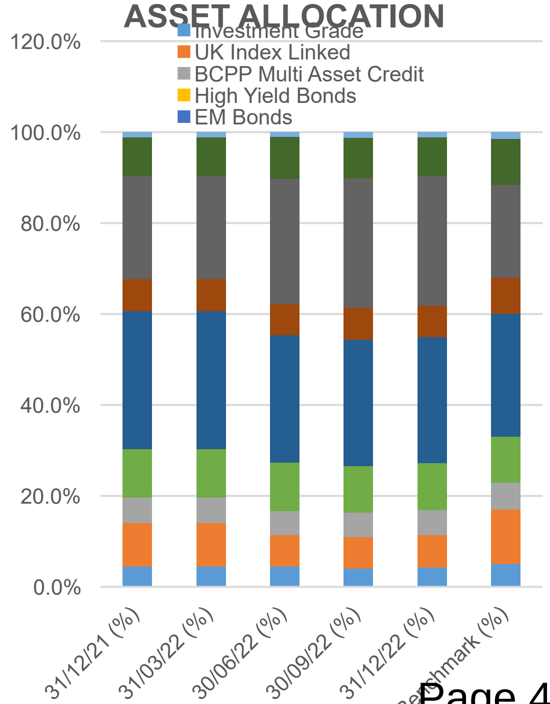
ASSET PERFORMANCE BY TOTAL ASSET CLASS- YEAR TO DATE



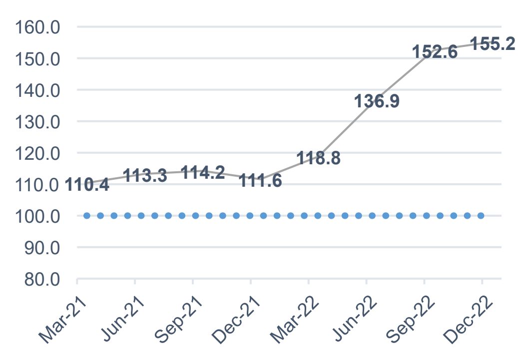
ASSET LIABILITY RATIO SINCE MAR 2021



ASSET ALLOCATION



FUNDING LEVEL %



Market background

Stock markets gained over the final quarter of 2022 as they were boosted by signs that global inflationary pressures may be waning. The US Federal Reserve, ECB and the Bank of England all continued to raise interest rates to tackle high inflation but eased the size of rate hikes in December. Government bond yields rose towards the end of the quarter as major central banks reiterated plans to tighten monetary policy.

UK equities recovered strongly over the quarter as a change of chancellor and prime minister reversed the policies introduced by Liz Truss' government. This also restored stability to UK bond markets. The Bank of England raised rates by 0.75% in November and then 0.5% in December. The FTSE 250 Index which has companies more typically biased towards the domestic economy, outperformed the FTSE 100 index as the dollar weakened over the quarter.

Global equities also rebounded over the quarter. Signs that inflation may have peaked in the US and Europe increased hopes that the current interest rate hiking cycle may be reaching an end. European markets performed particularly well helped by strength in German and Italian equities. US and Asian markets also recovered with China shares starting to surge in November after the Chinese government signalled its decision to relax its strict xero-Covid policy. This was confirmed in December. Emerging markets generally posted strong returns helped by a weaker dollar.

Globally, government bond yields showed a mixed picture. UK government bonds recovered from September's mini-budget after a reversal of policies was announced. US Treasuries also rose although fell in sterling terms as the dollar weakened. European and Japanese bonds declined over the period, with the ECB maintaining its hawkish message and the Bank of Japan announcing a modification to its yield curve control policy Credit spread is the difference in yield between bonds of a similar maturity but with different credit quality. Credit spreads tightened across the quarter on improved risk sentiment and outperformed government bonds.

Sterling investment grade had a better quarter after the reversal of the mini-budget and were boosted by signs that global inflationary pressures may be receding in the US and Europe. High yield bonds also rose significantly in local currency terms.

Market background

Commodity indexes rose over the quarter with higher prices in industrial and precious metals offsetting weaker agriculture prices. Within energy, strong gains for unleaded gasoline and heating oil offset a sharp decline in the price of natural gas.

Real estate returns fell sharply given the weaker economic environment. Three month total return figures turned negative for the first time since the outbreak of the Covid-19 pandemic in 2020. Capital value declines have been the main driver in weaker performance as yields have begun to move out, particularly in lower yielding areas of the market. Industrials were the weakest given that they were coming from a very low yield base, falling 19.4% with residentials being the most resilient, down only 2.6%.

Fund Valuation

as at 31 December 2022

	Sep-22 £m	%	Quarterly Net Investment	Dec-22 £m	%	Benchmark %	Range %
FIXED INTEREST							
Inv Grade Credit - BCPP	396.6	4.0	10.0	427.7	4.3	5	
UK ILGs - BCPP	656.5	6.6	100.0	671.3	6.7	10	
UK ILGs SYPA	40.2	0.4	0.0	35.9	0.4		
MAC - BCPP	520.9	5.3	6.3	551.5	5.5	6	
TOTAL	**1614.2**	**16.3**	**116.3**	**1686.4**	**16.9**	**21**	**16-26**
UK EQUITIES	**1017.6**	**10.2**	**-60.0**	**1044.9**	**10.4**	**10**	**5 _ 15**
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2770.9	27.9	-170.0	2767.0	27.6	27.125	
Developed Market - SYPA	0.0	0.0	0.0	0.0	0.0		
Emerging Market - BCPP	694.7	7.3	0.0	690.7	6.9	7.875	
Emerging Market - SYPA	1.0	0.0	0.0	0.9	0.0		
TOTAL	**3466.6**	**34.9**	**-170.0**	**3458.6**	**34.5**	**35**	**30-40**
LISTED ALTERNATIVES -BCPP	**172.2**	1.7	**-20.0**	**157.0**	1.6	0	
PRIVATE EQUITY							
BCPP	207.4		24.8	242.7			
SYPA	910.5		-11.3	852.0			
TOTAL	**1117.9**	**11.3**	**13.5**	**1094.7**	**10.9**	**7**	**5_9**
PRIVATE DEBT FUNDS							
BCPP	77.0		27.5	111.9			
SYPA	504.1		-13.9	480.3			
TOTAL	**581.1**	**5.9**	**13.6**	**592.2**	**5.9**	**5.5**	**4.5-6.5**
INFRASTRUCTURE							
BCPP	235.8		52.4	306.0			
SYPA	721.7		3.7	712.7			
TOTAL	**957.5**	**9.6**	**56.1**	**1018.7**	**10.2**	**10**	**7_13**
CLIMATE OPPORTUNITIES	**0.0**	**0.0**	**4.2**	**4.2**	**0.0**	**0**	
PROPERTY	**878.0**	**8.8**	**49.9**	**842.4**	**8.4**	**10**	**8_12**
CASH	**130.3**	**1.3**		**115.1**	**1.2**	**1.5**	**0-5**
TOTAL FUND	**9935.4**	**100.0**		**10014.2**	**100.0**	**100**	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	**1685.8**			**1531.5**			

Asset Allocation Summary

We continued to reduce our overweight position to listed equity funds. We sold £230m, £60m from UK equities and £170m from overseas developed equities to fund a £100m investment into Index-Linked Gilts which reduced the underweight position and to fund further drawdowns into private equity, private debt and infrastructure funds. During the quarter we also reduced our weighting to the Listed Alternative fund by £20m to increase the weighting to both the Sterling Investment Grade Credit fund and the Multi Asset Credit fund.

Within the agricultural property portfolio we purchased a £27m holding at Holbeach which created synergies with our existing holdings. There were further drawdowns on the CBRE loans that we have and also into the residential funds that we hold.

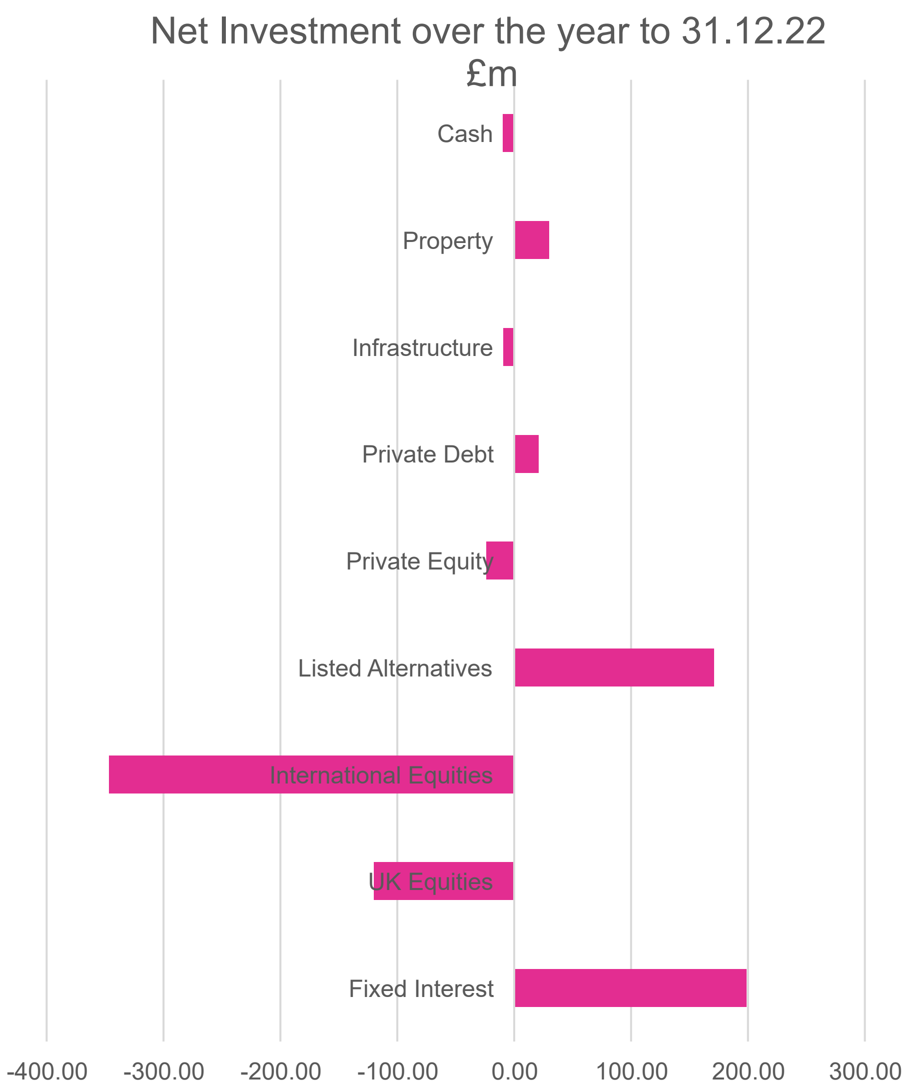
After the trades mentioned above there is now only one category that is outside its tactical range and this is private equity.

Our private equity fund holdings are showing signs of topping out in terms of valuation and we have seen a reduction in weighting to this category. We have been reducing our annual commitment to this category over the last few years and as realisations come through the overall weighting should continue to 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	7 - 13	707.2	7.1	-2.9
Sterling Inv Grade Credit	5	4 - 6	427.7	4.3	-0.7
Multi Asset Credit	6	4 - 8	551.5	5.5	-0.5
UK Equities	10	5 - 15	1044.9	10.4	0.4
Overseas Equities	35	30 - 40	3458.7	34.5	-0.5
Private Equity	7	5 - 9	1094.7	10.9	3.9
Private Debt	5.5	4.5-6.5	592.2	5.9	0.4
Infrastructure	10	7 - 13	1018.6	10.2	0.2
Listed Infrastructure	0	0-2	157	1.6	1.6
Climate Opportunities	0	0-2	4.2	0.0	0.0
Property	10	8 - 12	842.4	8.4	-1.6
Cash	1.5	0 - 5	115.1	1.1	-0.4
Total	100		10014.2	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 December 2022

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	6.3	5.7	-12.2	-12.3
UK ILGs	-12.8	-12.8	-41.9	-41.9
Multi Asset Credit - BCPP	4.7	1.6	-5.9	3.8
UK EQUITIES	**8.8**	**8.9**	**1.7**	**-0.2**
INTERNATIONAL EQUITIES				
Developed Market - BCPP	6.0	5.6	-2.1	-3.3
Developed Market - SYPA			-4.7	-8.4
Emerging Market - BCPP	-0.6	0.7	-4.2	-4.3
Emerging Market - SYPA	-4.8	0.7	-1.0	-4.3
TOTAL	**4.7**	**4.6**	**-2.5**	**-3.3**
PRIVATE EQUITY	**-3.3**	**2.4**	**3.5**	**7.4**
PRIVATE DEBT FUNDS	**-0.2**	**1.5**	**7.2**	**4.5**
INFRASTRUCTURE	**0.7**	**1.9**	**9.7**	**5.9**
PROPERTY	**-8.6**	**-9.8**	**-11.2**	**-9.5**
CASH	**0.7**	**0.7**	**1.3**	**1.3**
TOTAL FUND	**1.0**	**1.2**	**-5.2**	**-7.0**

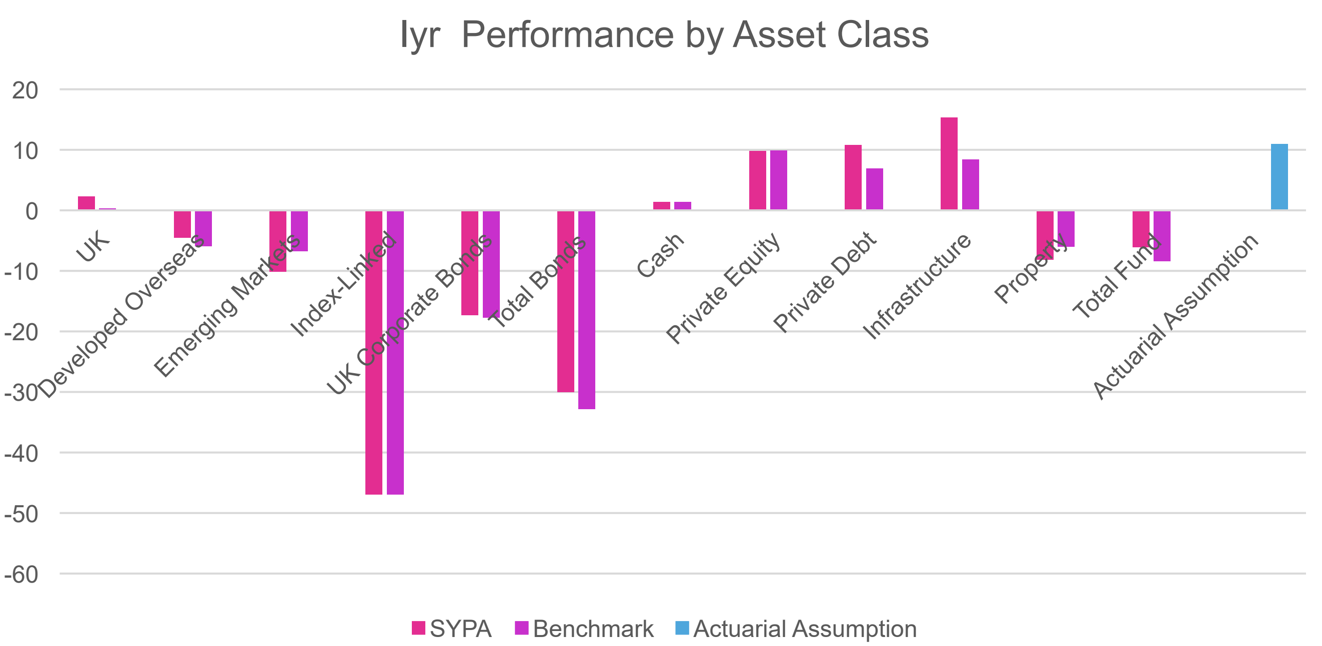
Performance Summary

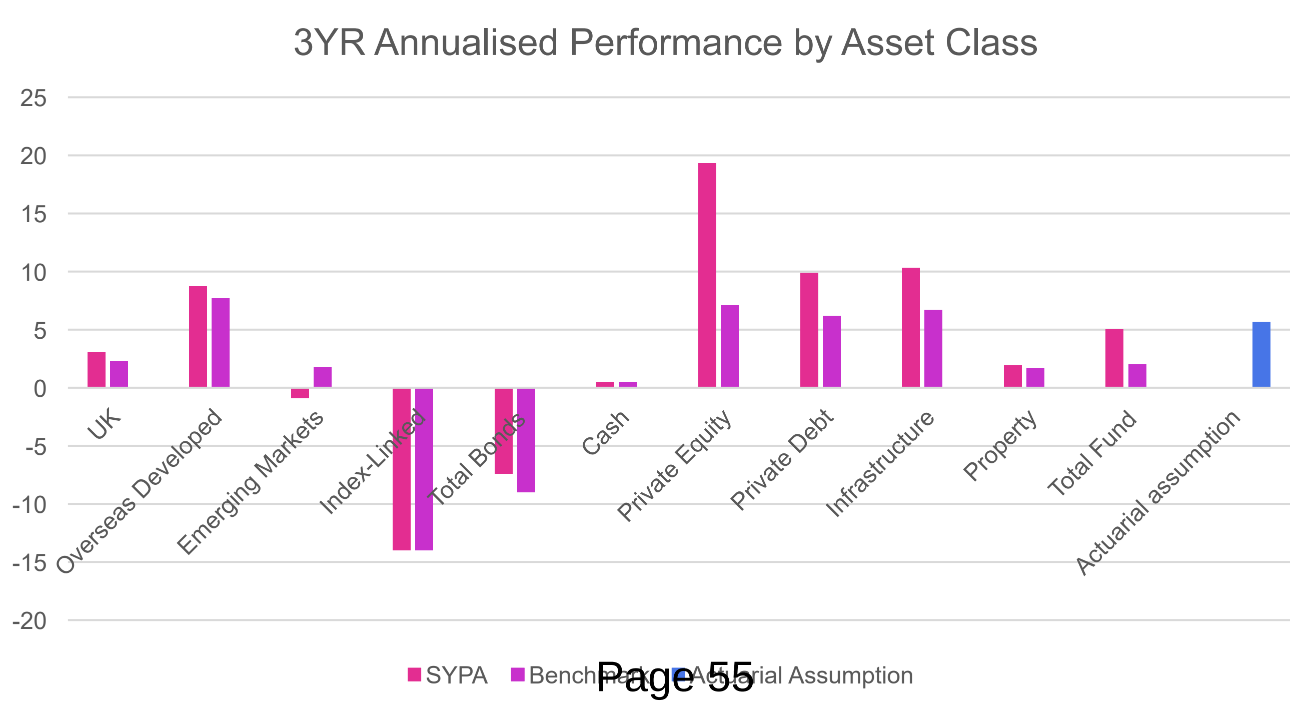
For the quarter to the end of December, the Fund returned 1.0% against the expected benchmark return of 1.2%. Asset allocation decisions taken together added 0.5% and stock selection detracted by 0.8%

The breakdown of the stock selection is as follows:-

Dev Overseas Equities	**0.1%**
EM Equities	**-0.1%**
Multi asset Credit	**-0.1%**
Private Equity funds	**-0.6%**
Private Debt funds	**-0.1%**
Infrastructure funds	**-0.1%**
Property	**0.1%**

Performance-Medium term





Performance – Border to Coast Funds

The UK equity portfolio showed outperformance of its benchmark this quarter and is now achieving its target return since inception. The portfolio benefited by being underweight real estate where the sharp rise in yields negatively impacted property valuations and by being overweight industrials such as Melrose Industries and Coats which benefitted from global economic recovery post the pandemic lockdown.

The Overseas Developed Market portfolio continued it's steady outperformance with stock selection in all areas being in-line or outperforming the benchmark indices, with Europe ex-UK in particular adding to performance. Strong stock selection within the energy sector across most regions, together with relatively low exposure to Real Estate added to performance. .

The Emerging Market portfolio reversed the performance of last quarter, under-performing the benchmark this quarter by 1.3%, with all three managers underperforming their target index. It is behind the benchmark since inception.

At the start of the quarter the Bank of England intervention and the change in the Prime Minister and moving back to a tight fiscal stance rather than the pro-growth un-funded strategy of the Truss government helped calm the volatility in the bond markets and led to a short lived relief rally in bond prices. As the quarter progressed the prospect of still significant fiscal demands and the commencement of the Bank of England's quantitative tightening programme again put upward pressure on yields, although to a lesser degree than the previous quarter. Medium to long dated yields rose 50 to 60 bps over the quarter and there was a modest reduction in corporate spreads. The increase in gilt yields resulted in a total return of -12.8% for the Index-Linked portfolio compared to the benchmark performance of -12.76%. The portfolio underperformed marginally by being overweight to ultra-long linkers which were the weaker performers.

Interest rates began the quarter elevated but as interest rate expectations fell this was beneficial for the Sterling Investment Grade credit portfolio which outperformed its benchmark by 0.54% with all managers outperforming. From inception all the managers have achieved outperformance of their target.

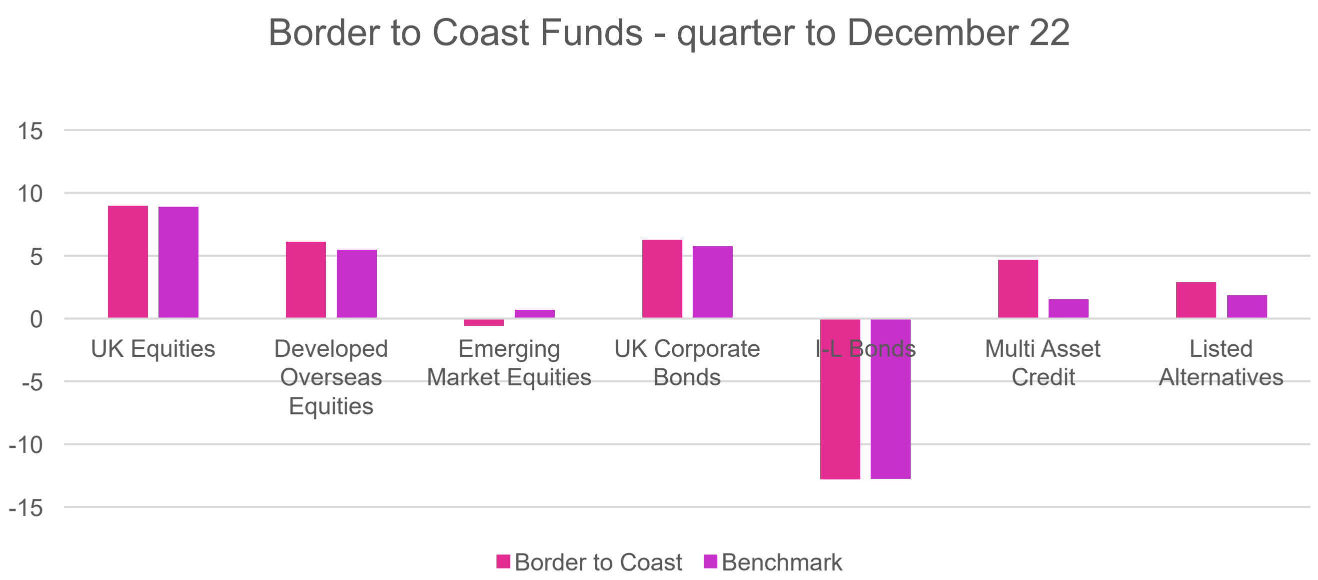
Performance – Border to Coast Funds

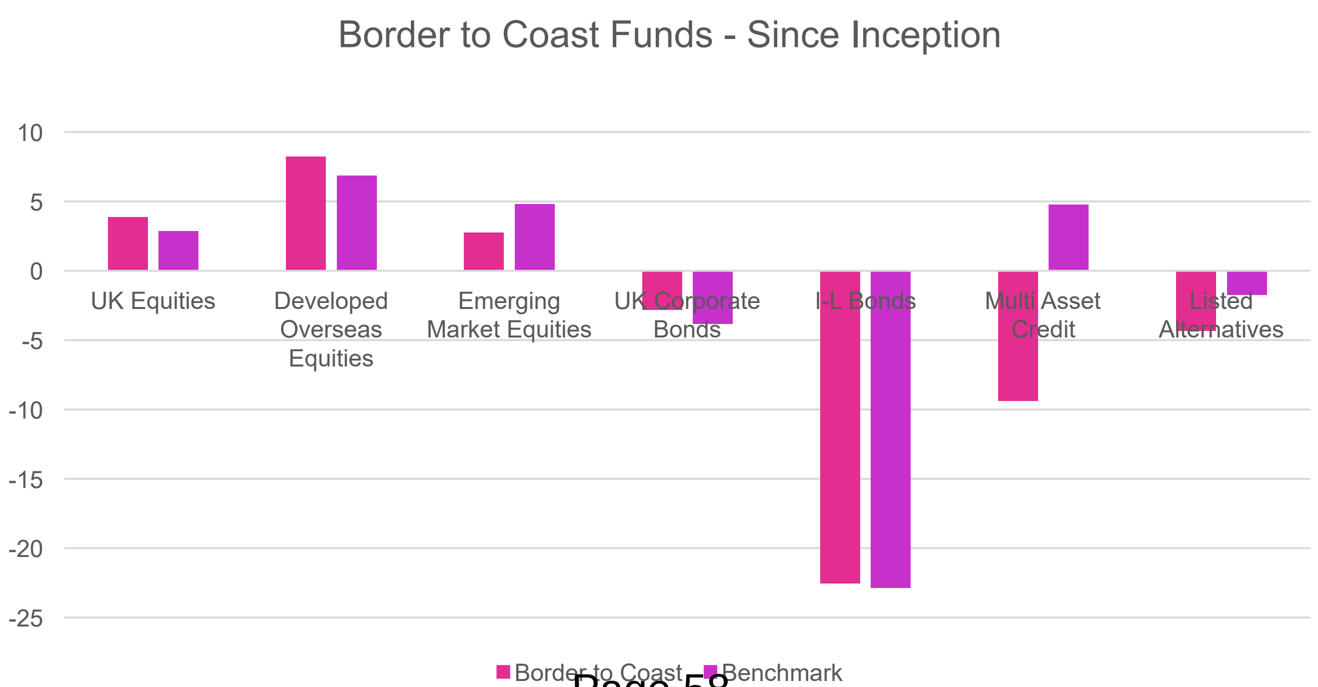
The Multi-Asset Credit fund has an absolute return benchmark and this quarter all the underlying fixed income asset classes experienced strong performance and thus led to outperformance. The stand out area of performance was emerging market debt which gained more than 8% over the quarter as the weakness in the US dollar eased the repayment burden for emerging market debtors. However, it Is still behind target from inception.

The Listed Alternatives fund showed outperformance for the quarter but is still underperforming since inception. The portfolio has a diversified portfolio which includes listed assets in infrastructure, specialist real estate, private equity and alternative credit. Assets with high interest rate sensitivity were adversely impacted earlier in 2022 as rates rose sharply but the manager feels that the portfolio is well positioned going forwards as most of the policy tightening has occurred and their estimates of returns for their largest holdings are well into double-digits.

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 December 2022 is estimated to be 153%

The breakdown is as follows:

Fund's Assets at 31 December	**£10,016**
Funds estimated Liabilities at 31 December	**£6,553**

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 2022

Outlook

The backdrop to growth and inflation has marginally improved, but the global cost of living crisis, and specifically the cost of energy in the UK and Europe continues to be an issue. With the negative economic pressures, the path forward for asset classes remains uncertain.

Central banks are focused on fighting inflation which has led to higher real yields, flatter yield curves and tighter financial conditions which has also given rise to greater market volatility.

Valuations have become more attractive, but the background has become more challenging.

UK Equities

The UK faces a tough year from an economic perspective and does seem to have a structural issue with its labour force where the size of the labour force has not recovered to its pre-Covid levels.in the same way as in other Western economies, and this will lower growth until addressed. However valuations on the stock market look attractive and offer an attractive yield.. Would like to have a fairly neutral weighting

Overseas equities

We expect market conditions to remain volatile. We are now only moderately overweight overseas equities although we are underweight emerging markets relative to our benchmark weighting. Valuations do not look stretched as long as the earnings expectations are met. Will look to continue rebalancing total overseas weighting towards neutral by reducing the developed market portfolio.

Outlook

Bonds

The important factor for bonds is how far central banks will go in their bid to control inflation, when they pivot to easier policy and whether they manage to avoid a deep and prolonged recession. It seems likely that interest rates, and so bond yields, will probably settle at a higher level than we have become used to since the financial crisis. Valuations are looking more attractive than in recent months and the asset class will become more competitive from an income perspective than it has been for many years. We have benefited from being underweight bonds as rates have been increasing but we now see better value in bonds so will be rebalancing into bonds.

Real Estate

UK real estate is now undergoing a broad repricing given the weaker macroeconomic environment. Investors continue to narrow their focus on prime and best-in-class assets, particularly within those sectors that benefit from structural and demographic growth drivers. Secondary assets, and those that do not meet current environmental and occupier criteria, are expected to see much weaker demand from investors.

Prime price is expected to stabilise in 2023 and secondary pricing is expected to see greater capital value declines. Opportunities will arise over the course of 2023, particularly as the path of monetary policy turns more accommodative. Those sectors that benefit from longer-term growth drivers, such as the industrial and living sectors, will see greater demand return and at more attractive pricing levels. The repricing of long-income investments will also provide an attractive opportunity for investors, particularly when yields for gilts and inflation-linked bonds moves lower in line with the expected rate cuts from the Bank of England.

Although our portfolio performance has been hit in the short term due to lower yielding core industrial stock being repriced as the margin between prime yields and the risk-free rate narrows, over the medium term the fundamentals for the sector remain positive.

Outlook

Real Estate cont

After the sales programme we have undertaken our low exposure to offices is a positive but we now need to diversify by increasing the exposure to healthcare, student accommodation, Build to Rent, Retail Parks and Supermarkets. The focus will still be on good quality assets with strong ESG credentials.

Will look to selectively increase our 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 with the allocations being weighted more towards private credit which tend to benefit from the linkage to floating rates in a period of rising rates and to infrastructure investments that have a particularly high level of linkage to inflation and have secure income characteristics.

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

March 2023 – Investment Context

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Saved by the Ball?

Last quarter we spoke of a turbulent end to 2022, which very much ended as it began – with uncertainty, rising inflation and a consumer under strain. Now as we look back on that year and embrace the "new", it is apparent that GDP growth was actually flat in the UK over the 4th quarter – narrowly avoiding a recession. One reason for the surprising resilience of the economy? The increase in consumer spending during the World Cup, which saw food and beverage services increase by 2.2% in November alone. The recession bell still tolls however, and the economy is still expected (by no less than the Bank of England) to experience a mild recession in Q1 of 2023, and to be the weakest performer among the G7.

In the UK inflation remains stubbornly high (at around 10.1%) although it is showing signs of cracking elsewhere, and the Bank of England remained on a tightening path, increasing the base rate by 50bps to 4% in early February – its 10th consecutive rate rise. Now at its highest level in 14 years, the base rate will put continued pressure on mortgage holders and most consumers, as well as businesses seeking credit.

Key Developments since the last quarterly update:

- **Inflation seems to be beating a retreat around the world, with the exception of the UK and some pockets of surprise around the world**
- **Interest Rates continue to rise – but take a breather.** While both the Bank of England and the ECB delivered a robust 50 bps rate rise in early 2023, the US Fed eased its pace of tightening by decelerating to only 25 bps, indicating that there were a "couple" more interest rate rises in the pipeline

- **Employment continues to be resilient –** The US jobs report in January was described as a "blockbuster" showing the creation of over 500,000 new jobs, upwards revisions of prior months and the lowest unemployment rate since May 1969 – a 53 year low. In the UK, jobs remained strong too – at 3.4%. UK employment is similarly strong with unemployment at 3.7%, only slightly above its recent low of 3.5% last summer.
- **A warm winter delivered the "force majeure" that energy markets needed.** A warm winter in Europe as well as better than expected provisioning for energy supplies led to less energy price volatility and dampened the concerns of an energy crisis. This acted as a brake on inflation as well as a respite to beleaguered businesses and consumers, and turned around an otherwise bleak narrative at the beginning of the year.
- **Emerging Markets re-emerge.** China's swift reversal of its strict Covid policy was done without much fanfare and ushered in a renewal of interest and enthusiasm around emerging markets. Flows into the area were markedly up while funds flowed out of US equities, while a reversal in dollar strength also heightened the relative attractiveness of investing outside the US. The tragic earthquake in Turkey and Syria, which had a death toll of over 50,000 at the time of writing, was a timely reminder of the fragility of both the infrastructure in certain emerging regions as well as of the potential for political fortunes to turn on issues such as a response to the tragedy. As President Erdogan of Turkey prepares for an election in May, anger is mounting and his handling of the growing humanitarian crisis could well affect the outcome of the elections on May 14.

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Current Macro Snapshot

In Outlooks for 2023 – Near Consensus About a Recession Spark a Counter-Narrative.

It is traditional for asset managers and investment banks to issue lengthy "outlooks" for the year ahead, which seems almost a quaint tradition in light of the fact that very few outlooks for 2022 predicted the speed of interest rate rises, the outbreak of war in Ukraine or the calamitous fall in stock and bond markets that occurred last year. Still, old traditions die hard, and the 2023 outlooks were remarkable in their consensus. Most, with the notable exception of Goldman Sachs, predicted a shallow recession globally in the 2023 – but less of one in the US. They expected inflation to moderate and interest rate rises to decelerate. This led to a curious twist – because the recession was all but "baked in" based on both the yield curve and the universally bearish commentator outlook, any positive news was quite well received. As can we seen below markets were relatively buoyant in the start to the year.

One commentator noted:

> *"This recession is one of the most anticipated and thus heavily discounted ever and markets are now looking across the valley to the other side."*

And even perma-bear Jeremy Grantham of GMO seemed to be putting his pessimism on ice – stating in his newsletter:

> *"I should confess that I am rather rattled as a contrarian by the enormous increase in pessimism and realism since my letters of a year ago and two years ago, with influential firms like Morgan Stanley and Goldman Sachs pointing to recession and lower earnings that do not yet seem to be in the price of stocks. Equally disturbing, it is said to be one of the most widely predicted recessions ever".*

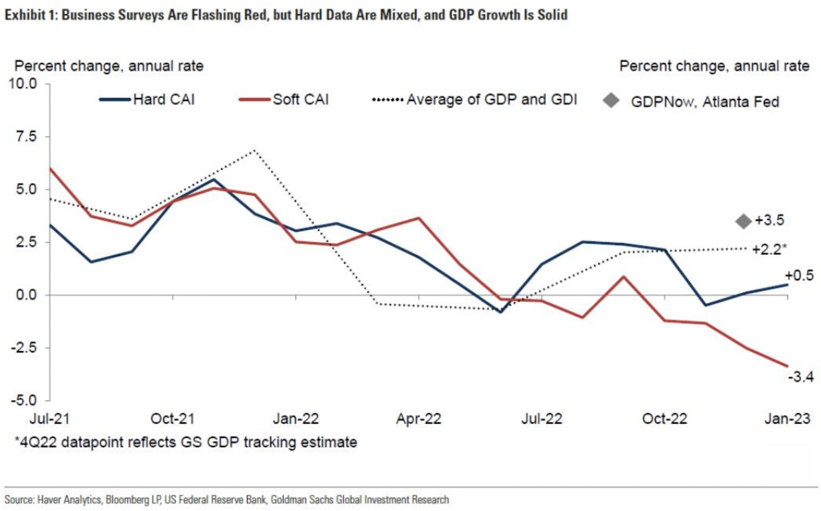
Inflation – A Twist in the Tale

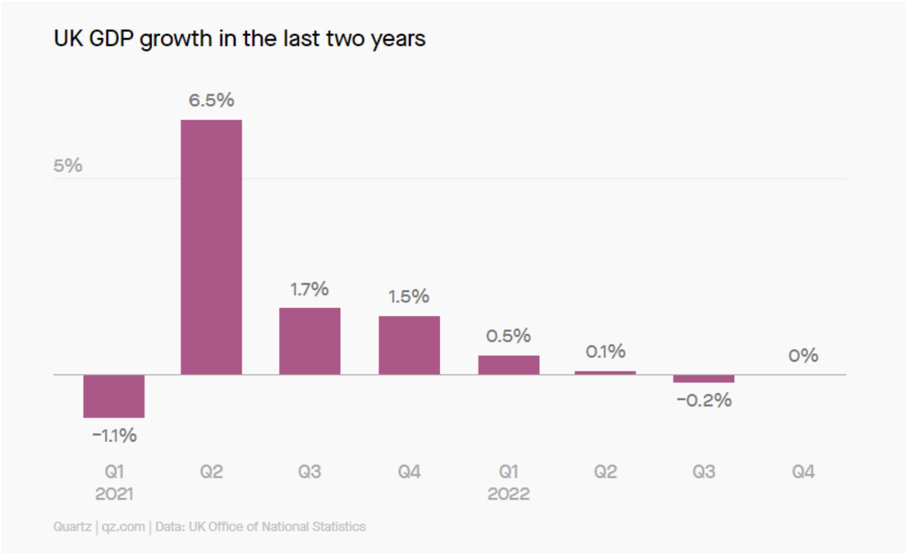
The latest inflation figures for the US showed headline CPI inflation falling from 6.5% in December to 6.4% in January, with core inflation (excluding food and energy prices, which are typically more volatile) falling to 5.6% from 5.7%. This overall downward trend was initially well received by markets but has more recently been seen as being naggingly persistent. While pockets of extreme inflation may occur based on isolated supply issues - e.g. the price of eggs in the US – the moderation of inflation seems to be a theme for 2023. There are exceptions, however.

We have noted before the divergence in Eurozone inflation – where the headline number (8.4%) reflects an average but conceals significant variation between different countries. Inflation in services continues to rise, although food and energy price inflation is slowing, but surprises like the 5.8% level in Spain in January (compared to 5.5% a month earlier), led to the President of the ECB, Christine Lagarde, suggesting that there was "more ground to cover" before they could bring inflation down to the ECB's 2% target.

Hard Indicators v. Soft Indicators

As noted above the so-called "hard" data-driven indicators continue to surprise to the upside. Inflation is less severe than expected, while growth is proving to be more buoyant than previously thought. Employment remains resilient (the UK unemployment rate remains unchanged at 3.7%) while the cost of labour is rising but at a lower rate than inflation. The current Strike resolutions in the UK may provide some "floor" under labour costs in the near term. These indicators conflict with "softer" indicators such as consumer confidence and purchasing manager index confidence, which is continuing to languish. The chart below shows some of the divergence at play between the hard "current activity indicators" (indicated by the blue line below) and the soft ones (indicated by the red line):





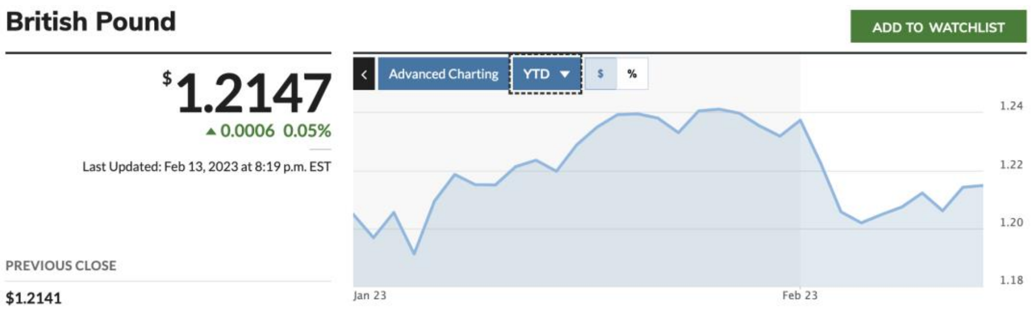
Tough talk by Central Banks – but is the market listening?

In announcing a mere 25 bps rate rise in January, the US Fed's Jerome Powell tried to sow seeds of caution, while the Governor of the Bank of England surprised markets with a higher than expected 50 bps rise in February, citing the uncertainty of inflationary pressures, and the need to "see (their policy) through". His messaging since has been decidedly neutral – neither suggesting a further continuation of hikes or that they have peaked. Christine Lagarde of the ECB also stressed the importance of "delivering on the goal" of bringing inflation down.

Markets didn't take much of this at face value – tending to price in a lower "terminal rate" when it comes to the end-point of the current rate rise trajectory and to jump to the punchline of markets flatlining and the central banks needing to stimulate again. Whether this is the market wistfully remembering "times past" or a realistic assessment of the likely game plan of the next few years remains to be seen, but it was an odd disconnect, which seemed to vex central bankers.

A breaking of the USD wave

The persistent strength of the US dollar has been a thorn in the sides of emerging markets and a boost to global portfolios for much of the past decade and the US currency has hovered near a 20 year high for much of 2022. This started to "crack" in the first few months of 2023, in a development that commentators hailed the "breaking of the USD wave". Sterling benefited from some appreciation against the dollar as the charts below show:



Emerging Markets Flows Buck The Trend; although Geopolitical Tensions Remain

Emerging markets and non-US markets followed the "reversion to the mean" norm in the first few months of this year – outperforming US markets for a period after nearly 15 years of underperformance. This was partly driven by a resurgence in economic activity in China, partly by the resilience of Europe and partly by the (sad) normalization of the conflict in Ukraine. The chart below shows the reversal of flows, and notes the outperformance of Chinese equities. This chart pre-dates the more recent pick up in US/China tensions characterized by a shooting down of "spy balloons" suggested to be floating over US airspace. This came at a time of a softening of the rhetoric around China by the Biden administration and a pending trip to the country by the US Secretary of State. We will watch the current developments with interest.

Individual Asset Class Performance.

- Equities
- Fixed income
- Other asset classes

The chart below shows recent performance in our measured equity and fixed income indices (at March 2, 2023)

Equity Index	**Year to date (March 2, 2023)**	**1 year**
FTSE 100	6.22%	6.53%
S&P 500	2.91%	-9.92%
Nasdaq	8.72%	-17.25%
Dax (Europe)	9.92%	9.32%
Hang Seng	4.24%	-7.72%
Shanghai Comp	7.22%	-4.93%

Equities: A Mixed Bag of Earnings; Punishment is Gentle

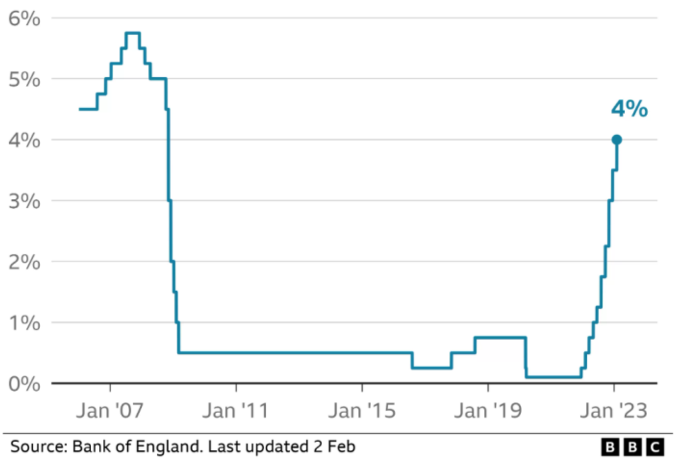
Earnings season was a bit of a mixed bag, with most companies playing down the impact of inflation but continuing to worry about the effects of a depressed consumer and a recessionary outlook. Layoff announcements mounted, some, no doubt, a "catch up" from a period of few lay-offs during Covid, but overall quite sobering across both new economy and old economy companies. The interesting part, however, was the market reaction. From Netflix to Alphabet to GE, the report of headcount cuts was rewarded by investors who celebrated realism, cost cutting and discipline on the part of company management and the promise of more robust earnings (and possibly dividends) in the future.

Most companies continued to beat expectations although overall earnings were down year on year – this reflected the accurate telegraphing of bad news that had occurred all throughout 2022, which had effectively guided expectations downwards. Even when earnings did disappoint in a surprising way – e.g. Meta, Amazon, Alphabet and Apple missed consensus earnings estimates in the aggregate by 8%, the "punishment" or effect on the stock price was far more muted than in other years. Investors seem to view the glass as "half full". It could be that as in the case of recessionary forecasting going into overdrive, investors had expected far worse outcomes from companies and were pleasantly surprised that things were not worse.

Markets have shown a sharp reversal in fortunes from the end of last year, with the tech-heavy Nasdaq leading the charge, although the upswing has been quite volatile. European stocks saw strong performance as market participants seemed surprised that Europe was still standing after all of the pessimism, and as the unusually warm winter improved the energy reliance picture. Asia too saw a remarkable come back although this has eased somewhat in recent days.

Fixed Income: The flipside of higher rates

As a 10th consecutive rate hike brought the UK base rate to 4%, an inevitable question arises as to the impact on mortgage holders and businesses dependent on borrowing. It is important to bear in mind that only one third of households in the UK have a mortgage, with around ¾ of those on fixed rate deals. While some of them will not adjust in the near term, there will be periods of crunch when deals are renewed. It is notable, however, that in expectation of lower rates in the future, rates for 2 and 5 year fixed deals are now lower than their peaks. This may ease some of the burden on homeowners.



The flipside of the higher base rate is the higher rates available on fixed income instruments today, although, as is the case in the US, there is generally less upside available in longer dated bonds, as the mortgage rates indicate and as the inverted yield curve in the US has shown for months. For investors this does, immediately, render cash a more viable place to leave dry powder, and also increases the relative attractiveness of bonds as an investment – particularly if inflation also moderates and the rate of return after inflation becomes more interesting.

Bonds did start to firm somewhat after the disastrous performance in 2022, and in high yield in particular yields were even tighter than higher quality credit suggesting that there was another "junk rally" or "dash for trash" in effect. This anomaly can sometimes occur when equity market sentiment outstrips the traditionally more cautious bond market, as higher yielding bond more often trades like equity, but it is an indication that some of the pain in bonds may now be behind us as we move into 2023.

Last quarter we discussed the emerging notion of "TARA (There are Reasonable Alternatives) to Equties" – but the year to date it is clear that old habits die hard. Even if bond yields can now be meaningful in their own right, the fear of missing out on a "turn" in equity markets, of missing the bottom or of not being invested in the only (liquid) means of capturing growth continues to drive flows as the enthusiasm greeting earnings season reveals.

Other asset classes – Commodities

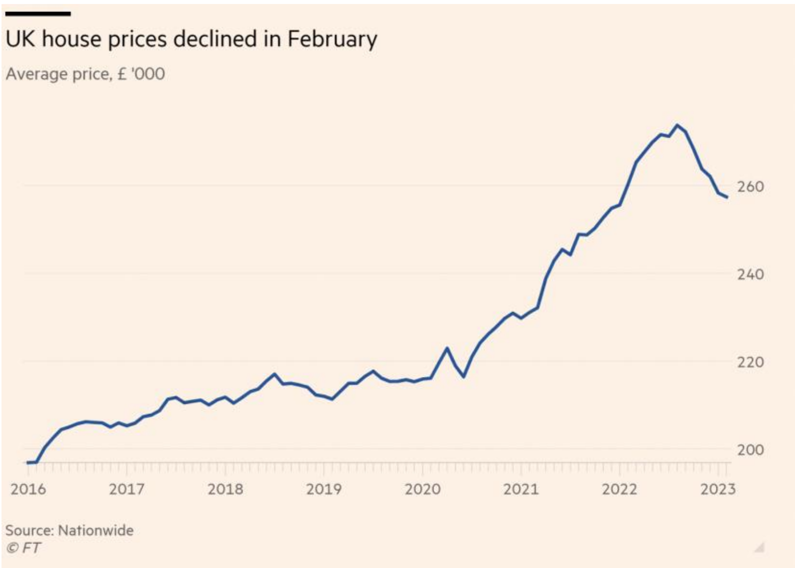
Commodities continued to be more subdued as the effects of the warm winter in Europe and recessionary fears took their toll on valuations. Oil is hovering more or less flat year to date, although at below $80 per barrel is well below its recent highs seen in mid 2022. Other commodities such as precious metals are weaker, which again will take ease some inflationary pressure for producers.

Spotlight*: Real Estate Gets Real*

As the hybrid work landscape shifts once again the outlook for real estate is once again muddied. The comparison to previous recessionary periods is inevitable, but a few recent market reviews have noted important differences between the current period and the financial crisis of 2007-2009. It is noted that oversupply of properties is not present – except, perhaps, when it comes to lower quality office buildings. In most parts of the world there is a housing crisis and inadequate supply of residential housing while in other areas, such as retail, a "flushing out" of the high street has been underway for some time. This leads some commentators, particularly in the US, to be bullish on the retail sector predicting a boon for grocery-anchored shopping centres and higher end shopping centres focused on "experiences".

There also have not been particularly rich valuations nor excess leverage or borrowing in the past few years in most sectors – and these two issues are most likely linked. A lower appetite to lend by banks scarred from the excessive lending and sub-prime borrowing that triggered the financial crisis has led to less leverage by both homeowners and businesses alike. Banks too are not over-extended at this time, even if a recessionary environment looks likely, which reduces the probability of collapse and instability up the chain. Even areas that have been popular such as industrial real estate and the "other" category such as student housing and self-storage is deemed to be richly valued, but still underpinned by strong demand. There remains such an abundance of dry powder in this area through funds that have raised assets earmarked for real estate that now that valuations are easing somewhat, and the crowding for deals is less severe, many buyers are expecting to start fishing for industrial assets again.

In the UK house prices showed the largest annual fall in 10 years in February (-1.1%) in February 2023 as higher mortgage rates started to take effect.



Finally we should discuss the well-publicized halting of redemptions that has occurred on funds with quarterly liquidity – so called "interval funds" – that have halted redemptions due to receiving more than the quarterly limit (usually 2% of NAV per quarter). Recently the Blackstone BREIT – a private real estate investment trust – halted redemptions and REITS run by Starwood and KKR followed suit, failing to meet all of the redemption requests they received. Usually firms in this situation will cite the need to maintain stability, orderly portfolio management and a desire not to disadvantage other shareholders as the rationale behind stemming redemptions, but it is a timely reminder of the potential mismatch in liquidity of assets such as real estate with investor expectations. It is also perhaps a sign of things to come – as large institutional investors adjust their portfolios to reflect the impact of 2022, there will be a hesitation around the use of private assets, as most portfolios are now overweight their targets in this area.

Outlook . . Calling Time

Last quarter we talked again about the concept of a "*New New Normal*" – in which investors seem to have quickly adjusted to a reality of inflation in high single digits and consecutive interest rate rises. Now investor sentiment has moved on again to "look around the corner" of the current post-Covid reckoning and is grappling to figure out what will stabilize when. Will inflation fall further and then stabilize at or close to the 2% level that persisted for the last decade pre-Covid? Or will the current excesses and supply chain blockages stick for longer – and will an expectation of higher inflation become self-fulfilling?

With Central banks poised to slow down their unprecedented tightening drive, will they start to revert to the old stimulating tactics employed after the last crisis – or will they hold their nerve while employment remains strong. And will it remain strong? Will employment continue to buck the trend to make the current slackening in economic activity unlike previous playbooks.

In coming months we will be watching in particular:

- **Landing the Inflation Plane.** We have noted many times the discussion of "hard landings" and "soft landings" (and lately "no landing") for the economy and the probabilities of each, which tend to move around monthly. One plane that has to "land" however is the level of inflation and it is perhaps better to watch this arc over a longer period than the nail-biting, month to month, frequency that we watch it with today. As the year reaches the mid-point we will start to see a pattern emerge, which will enable us to make more solid predictions about the long-lasting effects of inflation across the economy and what it means for growth and market performance.

- **Layoffs and Slowdowns – Course Correction or Something More Sinister?** Because Covid distorted the pace and pattern of hiring so dramatically for companies, it is very difficult to see what the new base level of hiring needs will be. This is accentuated by concern about the incursion of AI (e.g. Chat GPT) and automation as well as the dynamic of hybrid "work from anywhere" expectations. The current wave of layoffs and retreats by some of the champions of the last decade could be a course correction in their trajectory of growth or a sign of something deeply rotten or overstated about their growth expectations. This will need to be watched carefully as it will tie closely to consumer and investor sentiment

- **Energy Security Concerns Shift the Energy Transition Narrative.** The energy crisis and renewed talk of "energy security" that animated policy discourse over the past year, has changed to tone of the energy transition discussion somewhat. BP announced a decision to pare back its commitment to cut oil and gas production by 2030 as a response to the Russian invasion of Ukraine, but was accused of de-emphasizing its renewables project due to lower returns in that business compared to fossil fuels. Although the company's spending on the five transition businesses of biofuels, convenience, charging, renewables and hydrogen was 30% of its group capital expenditure in 2022 it plans to increase that to 50% by 2030.

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March 2, 2023

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Agenda Item

Subject	Investment Strategy Review and Updated Investment Strategy Statement	Status	For Publication
Report to	Authority	Date	16th March 2023
Report of	Director and Assistant Director - Investment Strategy		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director Sharon Smith Assistant Director – Investment Strategy	Phone	01226 666439 01226 666442
E Mail	ggraham@sypa.org.uk ssmith@sypa.org.uk		

1 Purpose of the Report

1.1 To receive the results of the review of the Investment Strategy following the 2022 Valuation of the Fund and approve their incorporation in a revised Investment Strategy Statement.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the work undertaken by Hymans Robertson to review the Strategic Asset Allocation.**

b. **Approve the proposed revised Strategic Asset Allocation.**

c. **Approve the revised Investment Strategy Statement at Appendix A incorporating the new Strategic Asset Allocation.**

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3 Link to Corporate Objectives

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

Investment Returns

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

Responsible Investment

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

Scheme Funding

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

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report relate to the various risks posed to the value of the Fund's assets as a result of major market related movements and the financial resilience of the asset base as well as to the risks associated with the Fund's cashflow.

5 Background and Options

Strategy Review

5.1 Following each actuarial valuation, the Authority conducts a review of the investment strategy to ensure that it is still appropriate in the context of the overall funding position and the cashflow requirements of the Fund. The key output of any review is the Strategic Asset Allocation (how much of the Fund should be invested in each asset class) which is the key driver of investment performance. Conducting such reviews requires the use of complex financial and economic modelling techniques applying to both assets and liabilities and therefore consultants are used to carry out this detailed work steered by the Investment Advisory Panel made up of the Independent Advisers and officers.

5.2 This strategy review has been conducted in a different context for the Fund. Firstly, there is a significant surplus of assets over liabilities and secondly this is the first review since the Authority agreed its Net Zero goal which alongside the broader impact of Climate Change needs to be factored into consideration of the options available for changes in the Strategic Asset Allocation.

5.3 The detailed work on reviewing the Strategic Asset Allocation has been undertaken by Hymans Robertson, who were appointed after a mini competition using the LGPS national framework. David Walker the lead consultant on the project will be present to address the highlights of their findings which are set out for publication at Appendix A. The full report is at confidential Appendix B, this is confidential because it includes proprietary information and judgements about specific investments. Members have already received a presentation on this work as part of a recent seminar on the investment strategy. The key messages from this work are as follows:

- The current strategic asset allocation has a greater than 80% probability of maintaining full funding over 20 years.
- Any of the options for changes in the strategic asset allocation identified also offer a greater than 80% probability of maintaining full funding over 20 years,
- It is possible without materially impacting the probability of the strategy being successful to tilt the portfolio further towards climate positive investments in support of the Net Zero goal.

5.4 The table below presents the proposed changes to the Strategic Asset Allocation based on the work undertaken by Hymans Robertson.

Asset Allocation	Current Strategic Asset Allocation	Proposed Strategy	Comments
UK Equities	10.0	7.5	Given the strong funding position a reduction in equity allocations does not materially hinder the probability of success
Global Equities	35.0	30.5	
Private Equity	7.0	7.0	Maintain as key driver of growth but improve climate data quality
Multi Asset Credit	6.0	2.5	Reduced MAC allocation. From a net zero standpoint this mandate is relatively carbon intense and is least aligned to a net zero pathway
Private Debt	5.5	7.5	Increased private debt allocation given attractive risk adjusted returns but seek to improve climate data quality.
Infrastructure	10.0	9.0	Reduced infrastructure allocation to allow for investment in climate opportunities
Property	9.0	9.0	Maintain key income driver to help meet cashflows
Natural Capital	1.0	3.5	1% agriculture and 2.5% allocation to timber on the basis that this will build up over time. Timber is the most likely asset class to improve the net emissions position in 2030 along with attractive investment characteristics and wider sustainability features such as improved biodiversity and support to local communities.
Climate Opportunities		5.0	5% allocation to Climate Opportunities capacity permitting. The Climate Opps fund offers a diversified approach to accessing various climate solutions with both attractive investment profiles and significant potential to accelerate the net zero transition for the wider economy.
Renewable Energy		5.0	5% allocation to renewable energy in addition to the Climate Opps fund. Further investment into renewable energy could provide more investment opportunities abbd be tolerated with regard to the funding position and provide further reductions in the net emissions position in the future.
UK Index Linked Gilts	10.0	7.0	Analysis shows that due to the strong funding position of the Fund a reduction in protection assets will not materially affect the probability of success
Investment Grade Credit	5.0	5.0	Maintain allocation to corporate bonds. Potential green bonds solution being discussed with Border to Coast.
Cash	1.5	1.5	

5.5 The Place Based Impact Investment Allocation discussed elsewhere on the agenda for this meeting will, following discussion with the Independent Advisers, be delivered through earmarking a proportion of commitments in the Private Equity, Private Debt, Infrastructure and Property allocations. This will ensure that these investments are made to the same financial targets as the other investments within those asset classes.

The regular reporting to the Authority will separately identify this allocation for monitoring purposes.

Investment Strategy Statement

5.6 The LGPS Investment Regulations require that the Authority produce an Investment Strategy Statement (ISS) which sets out its overall approach to managing the investment assets for which it is responsible including the Strategic Asset Allocation. A revised ISS incorporating the recommendations of the Strategy Review is presented for approval at Appendix C.

5.7 In addition to the changes reflecting the results of the Strategy Review the ISS includes two other significant changes:

- An indication of openness to switching some fixed income holdings into a Green and Sustainable Bond product should one become available which meets the relevant risk / return criteria.
- Information relating to the approach to "levelling up" or Place Based Impact Investment as presented in the Member Working Group report elsewhere on the agenda for this meeting. This is in anticipation of formal requirements being made in relation to this.

5.8 Other elements of the ISS refer to other aspects of the policy framework such as the Responsible Investment policy which are dealt with elsewhere on the agenda for this meeting.

6 Implications

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

Financial	The costs of the review work undertaken by Hymans Robertson have been met from the existing Investment Strategy budget.
Human Resources	Implementation of a significant strategic shift of this sort will require resources within the Authority to support its implementation. These have already been provided through the additional staffing resources approved last year.
ICT	None
Legal	None
Procurement	None

George Graham

Director

Sharon Smith

Assistant Director – Investment Strategy

Background Papers	
Document	**Place of Inspection**

Strategy review highlights and recommendations

Addressee

This note is addressed to the Pensions Committee ('the Committee') and Officers and Advisers of the South Yorkshire Pension Fund ("SYPF"). This note sets out the highlights and recommendations from the independent review of the Fund's investment strategy and should be read in conjunction with the main report "South Yorkshire Pension Fund Authority – Review of Investment Strategy".

Key Findings from strategic review

- The Fund was in a very strong position as at the March 2022 actuarial valuation with a funding level of 119% and the position will have improved since then due to rises in gilt yields. The current asset allocation remains heavily focussed on listed equities although steps have been taken to diversify this exposure through allocations to income focussed assets and assets with positive climate impact. The Committee have agreed an ambitious target for carbon emissions reduction from the Fund's assets with the aim of achieving net zero emissions by 2030
- The Fund is currently net cashflow negative by around £130m p.a. in terms of benefits payments versus contributions (i.e. excluding investment income) and this position is projected to increase in coming years
- The asset liability analysis shows there is a very high likelihood of the funding level in 20 years' time being above 100% funded on the current investment strategy, or even remaining above 115%. Despite the strong funding position there is still the potential for the funding level to fall below 100% in the worst 5% of outcomes over the next 3 years and 11% chance of the funding level falling by 20% over the valuation cycle
- Based on the assets where information is available the Fund's current strategy is not expected to achieve net zero by 2030. The UK equity solution is the most well aligned to net zero of the Fund's strategies and the Multi-asset credit strategy the least well aligned. To achieve net zero by 2030 the Fund would likely have to consider a mix of options which could include investment in negative carbon investment solutions and alternatives to existing equity and credit solutions
- The variations in strategy tested through the asset liability modelling show that;
    - Allocations from equities to assets expected to aid the Fund achieving net zero by 2030 do not have a material impact on success or risk. However, this is dependent on the underlying assumptions of the risk and return characteristics of these investments. Allocating assets from equities to income focussed assets has a positive impact on both success and risk metrics
    - Allocating asset from equities to protection assets could have a beneficial impact on risk without impacting the chances on maintaining funding levels above 100%, but the impact on net zero alignment and contribution affordability needs to be considered alongside this
- For the Fund to meet its net zero ambitions the Committee are likely to have to consider two main levers
    - Reduce emissions - Improve the current mandates by engaging with the managers, allocation to more efficient companies within sectors and engagement
    - Remove emissions - Increase allocations to assets that remove or avoid emissions in a measurable and robust way

Taking this into account the Fund could potentially invest further assets into climate opportunities or an additional allocation into assets such as renewable energy or timberland. The Committee may also wish to review the existing MAC mandate which is currently the worst aligned mandate and consider alternative credit mandates with explicit climate risk objectives.

Key conclusions:

- The strong funding position provides flexibility to consider various allocations to natural capital and renewables and the analysis suggests there is an opportunity to adopt a revised investment strategy that increases the allocation to net zero focussed assets without materially impacting funding outcomes.
- Given the timescale to 2030, we recommend an explicit allocation to timberland is considered as a priority in order to allow for the deployment of capital to this asset class. A higher allocation to timberland will increase the likelihood that the net emissions position can be reduced significantly by 2030. However, the practicalities of this and ability to achieve a diversified timberland portfolio would likely be a limiting factor.
- The development of the BCPP climate opportunities fund should be closely monitored as there could be potential for overlap in terms of South Yorkshire's ambitions and the options offered by this fund.
- Data availability and quality remains the main challenge today in assessing strategies. A combination of capital allocation and engagement activity with existing mandates will be needed.
- An allocation to climate solutions could be built up incrementally based on the capacity of the climate opportunities fund and alternative implementation routes are explored.

Recommendations

We recommend the Committee consider implementing the proposed investment strategy set out below.

Asset allocation	Current Strategic Asset Allocation	Proposed Strategy
UK equities	10.0	7.5
Global equities	35.0	30.5
Private equity	7.0	7.0
Total Growth	**52.0**	**45.0**
Multi-asset credit	6.0	2.5
Private debt	5.5	7.5
Infrastructure	10.0	9.0
Property	9.0	9.0
Natural Capital	1.0	3.5
Climate Opportunities	-	5.0
Renewable Energy	-	5.0
Total Income	**31.5**	**41.5**
UK Index-linked gilts	10.0	7.0
Corporate bonds	5.0	5.0
Cash	1.5	1.5
Total protection	**16.5**	**13.5**
Total	**100.0**	**100.0**

We recommend an annual review and evaluation of the net zero strategy as data evolves and capital is deployed. As a method of monitoring the Fund's progress, we recommend that that regular analysis of alignment with the net zero target, along with a review of actions taken is undertaken.

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SOUTH YORKSHIRE
PENSIONS AUTHORITY

Investment Strategy Statement

March 2023

Introduction

This is the Investment Strategy Statement (ISS) of the South Yorkshire Pension Fund ("the Fund") which is administered by the South Yorkshire Pensions Authority ("the Administering Authority"). The Investment Strategy Statement (ISS)is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The ISS is an important governance tool for the Fund as well as providing transparency in relation to how the Fund investments are managed. The regulations establish the range of matters that the Authority must consider when carrying out its responsibilities. In addition, the Authority is required to manage the Fund in the best financial interests of its members and beneficiaries at all times.

In preparing this statement officers have taken advice from an investment consultant, the Fund's actuary and from out two retained independent advisors.

The Statement is subject to review periodically, but at least every three years, and without delay after any significant change in investment policy. The ISS should be read in conjunction with the Fund's Funding Strategy Statement, which is available on our website at www.sypensions.org.uk.

Investment objectives

The Fund's primary investment objective is to ensure that over the long term it will have sufficient assets to meet all of its pension liabilities as they fall due. This objective is more fully explained in the Authority's Funding Strategy Statement (FSS) derived from the actuarial valuations of the Fund.

The crux of the FSS is the need to maintain a future funding level of 100% or better whilst keeping employer contribution rates as low and reasonably stable and affordable as possible. In order to achieve this the Fund's actuary estimates that an investment return of 2.3% over the risk-free rate is required.

To meet this objective the Authority manages the Fund from a long-term viewpoint and endeavours to maximise its returns but, at the same time, operates within a closely controlled range of acceptable risks. It also ensures that liquidity requirements are at all times met.

Process for ensuring suitability of investments

The Authority manages the Fund's investments, and it has delegated its day-to-day management responsibilities to its officers. The Scheme of Delegation to Officers is formally approved by the Authority and forms part of its constitution.

The Authority comprises twelve councillors drawn from the four district councils of South Yorkshire (together with non-voting co-opted members appointed by the trade unions). The constituent councils appoint members to the Authority in accordance with the provisions of the Local Government Act 1985. The Authority also liaises with the Local Pension Board which includes representatives of employers and scheme members.

The Authority is responsible for setting the investment strategy of the Fund. As well as obtaining advice from Authority's officers it has also appointed independent investment advisors to advise it on investment matters and an actuary for the production of actuarial valuations and for advice on liability issues. For other work it appoints consultants when required.

In order to ensure as far as possible that the investment strategy is appropriate for the Fund's liabilities the Authority has created its own bespoke or customised strategic asset allocation. This benchmark is consistent with the Authority's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and acts as a framework and is adopted only after analysing the Fund's liability structure in detail. It is reviewed at least every three years and always after the statutory actuarial valuation.

The Fund's directly owned securities are held by the custodian bank or its agents or directly by the Authority.

The Fund has recently carried out an asset and liability study alongside the 2022 actuarial valuation. The Fund's liability data was used in the modelling and the implications of adopting a range of alternative investment strategies were assessed and being cognisant of the Authority's commitment to its investment portfolios being net zero in terms of carbon emissions by 2030. The implications for the future development of the Fund were considered under a wide range of different scenarios and their implications for net zero alignment.

The investment strategy is determined based on the expected return on asset classes (for equities, bonds, property etc.) with the appetite for risk as measured by the dispersion (likely range) of these returns. The Fund may also make use of derivatives, either directly or in pooled investments, for the purposes of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets.

The conclusion of the study was that although the current strategy has a good chance of meeting the long-term objective regarding funding there was an opportunity to marginally improve the risk and return balance that increases the likelihood of achieving the long-term objective and reduces the potential for adverse outcomes. At the same time, to achieve the net zero target there needed to be allocation to natural capital and renewables. The increases in the allocation to net-zero focussed assets, doesn't materially impact the funding outcomes. This is done by reducing the exposure to equities, multi-asset credit and index-linked gilts and allocating to alternative and income focussed assets such as timberland, climate impact investments and private debt.

Changes to the allocations to public markets investments can take place relatively quickly but change to private market investments will take several years. The Authority is satisfied that the investment strategy has a sufficient probability of meeting its return targets over the long-term and it is expected that the Fund's long term investment returns will be at least in line with these assumptions and those published in the FSS.

The long-term benchmark positions before and after March 2023 are set out in the table below. Due to the amount of time, it will take to increase the allocations to private market investments, interim benchmarks will be used over an appropriate period to reflect these changes.

Asset Class	Current Benchmark %	New Benchmark %	Tolerance
UK Equities*	10.0	7.5	} +/- 5%
Global Equities*	35.0	30.5	}
Private equity	7.0	7.0	+/- 2%
Total Growth	**52.0**	**45.0**	
Multi Asset Credit	6.0	2.5	+/- 2%
Infrastructure	10.0	9.0	+/- 3%
Private Debt	5.5	7.5	+/- 2%
Property	8.0	9.0	+/- 2%
Natural Capital	2.0	3.5	+/- 2%
Climate Opportunities		5.0	+/- 2%
Renewable Energy		5.0	+/- 2%
Total Income	**31.5**	**41.5**	
UK Index-Linked Gilts	10.0	7.0	+/- 2%
Corporate Bonds	5.0	5.0	+/- 1%
Cash	1.5	1.5	+/- 1%
Total Protection	**16.5**	**13.5**	
Total	**100.0**	**100.0**	

*Note for the purposes of these tolerances listed equity allocations will be treated as a single allocation

As indicated above this asset allocation is constructed on the basis that it delivers the actuarially required return target of 2.3% over the risk-free rate which equates to 4.45% pa over the longer term.

In line with the regulations, the authority’s investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007. At the time of writing there are no such investments.

The Authority monitors the Fund’s actual allocation on a regular basis to ensure that it does not notably deviate from the target allocation. In order to measure the performance of each asset class against its benchmark index and monitor the investment objective, the Authority requires detailed performance measurement figures. These are independently provided by Portfolio Evaluation and are presented to the Authority on a quarterly basis.

Risk measurement and management

The Fund's main long-term risk is that assets do not match liabilities, and that funding objectives are not achieved. There are many different types of risk involved in capital stewardship and the Authority notes that without taking "risks" it will be difficult for the Fund to achieve the performance it needs if it is to meet its objectives. The Authority recognises that risk is inherent in any investment or operational activity and seeks to control risk rather than try to eliminate it. The approach aims to mitigate risk without compromising returns. In order to generate the required investment returns necessary to match the growth in liabilities this implies that the Fund will continue to take an active risk relative to its liability profile.

The key risks inherent in the Fund, and how these risks are mitigated, are below.

Risk	Description	Mitigants
Counter Party	Counterparty risk in every transaction in which the Authority takes part.	Use reputable service providers who operate effective controls. Independent investment advisers appointed to assist in the scrutiny of the investment management activity.
Funding strategy risk	There is a risk that the value of Fund assets will not match the increase in its liabilities which could result in a deteriorating financial position.	The effect can be reduced by diversifying the Fund's portfolios across a broad spectrum of assets and markets, considering these differences and the correlations between them and by granting the Fund's managers sufficient freedom to meet their targets but setting range constraints.
Performance	The Fund's investment managers fail to deliver returns in line with the underlying asset classes.	Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis. Manager performance is also reviewed regularly with support from independent investment advisers.
Demographic	Demographic factors including the uncertainty around longevity/mortality projections (e.g. longer life expectancies) can also contribute to funding risk.	Demographic assumptions are conservative, regularly monitored, and reviewed on a triennial basis.
Liquidity	Liquidity or market risk associated with the volatility of prices in certain assets and under certain market conditions.	Part of the Fund is held in securities that can be realised quickly in normal market conditions. Management of Authority cash flows to ensure future payments can be met.

Risk	Description	Mitigants
Inflation & Interest rates	Different classes of asset have different risk and return characteristics and sensitivities to changes in financial factors, in particular to inflation and interest rates.	It is important that the Fund's strategy considers these differences and the correlation between them. The Fund regularly monitors its exposure to interest rates.
Foreign exchange	Investing overseas exposes the Fund to fluctuations in exchange rates.	The Fund's customised benchmark regulates such exposure
Environmental, Social and Governance (ESG)	ESG risks have the ability to impact a company's profitability and the Fund's investment performance.	The Fund has a suite of Responsible Investment (RI) policies, acts as a responsible share owner and factors ESG into investment decision making. These are also referenced elsewhere in the report.
Employers	The financial capacity and willingness of sponsoring employers to support the Fund.	This is regularly reviewed by the Authority.
Governance	The risk of poor governance and the potential issue of Committee member turnover.	Ensure that Members are well informed by officers and independent advisers. A Member training programme is in operation. The Local Pension Board and external and internal audit also support the scrutiny and governance process.

Approach to pooling investments

The Fund is a participating scheme in the Border to Coast Pensions Partnership (Border to Coast). Border to Coast is an FCA regulated Operator and Alternative Investment Fund Manager (AIFM) that became operational in July 2018 and was set up to manage the assets of the 11 administering Authorities of the following LGPS Funds

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside pension Fund
- Tyne & Wear Pension Fund
- Warwickshire Pension Fund

The July 2016 submission to Government of the Border to Coast Pool provided a statement addressing the structure and governance of the Pool and the mechanisms by which the Fund can hold the Pool to account.

Border to Coast's role is to independently and professionally, deliver Partner Funds asset allocation choices. It will make decisions relating to and monitor the investment managers (including employees of Border to Coast) who manage the administering authorities' "fund money" with the aim of maximising the long-term net of fees investment returns attributable to each of the Parties.

Border to Coast has a strong corporate governance philosophy, focused on the delivery of long-term value through active corporate engagement, the rationale being that this aligns directly with ensuring the Partner Funds exercise their fiduciary duty in the best interests of their members and employers. Information regarding the structure and governance of Border to Coast can be found on their website https://www.bordertocoast.org.uk/

The Fund's intention is to invest its assets primarily through the Border to Coast pool as and when suitable investment solutions are available. At this time investments have been made in Border to Coast's UK Equity, Global Developed Equity, Emerging market Equity, Sterling Index-Linked Bond. Sterling Investment Grade Credit, Multi Asset Credit and Listed Alternative funds. Also, we have invested into their Climate opportunities, Private Equity, Private Debt and Infrastructure fund platforms.

Other investment opportunities continue to be developed. Partner Funds acknowledge that there may be occasions where Border to Coast is unable to implement all asset allocation strategy decisions made because it would not be cost effective to do so, but the Partners and Border to Coast will work together to try to avoid this situation.

The Fund will hold Border to Coast to account through the following mechanisms:

- The Authority will monitor and regularly review the investment performance of the assets under Border to Coast's management, seeking explanation and attendance of Border to Coast personnel at meetings where necessary.

- The conducting of an annual review of the performance of Border to Coast by the Authority's officers and independent advisers resulting in an annual report to the Authority.

- Two shareholder nominated Non-Executive Directors on the Board of the Company, with equal voting rights, who will provide oversight and control of the corporate operations of Border to Coast.

- A representative on the Joint Committee (generally the Chair of the Authority) who will monitor and oversee the investment operations of Border to Coast.

- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

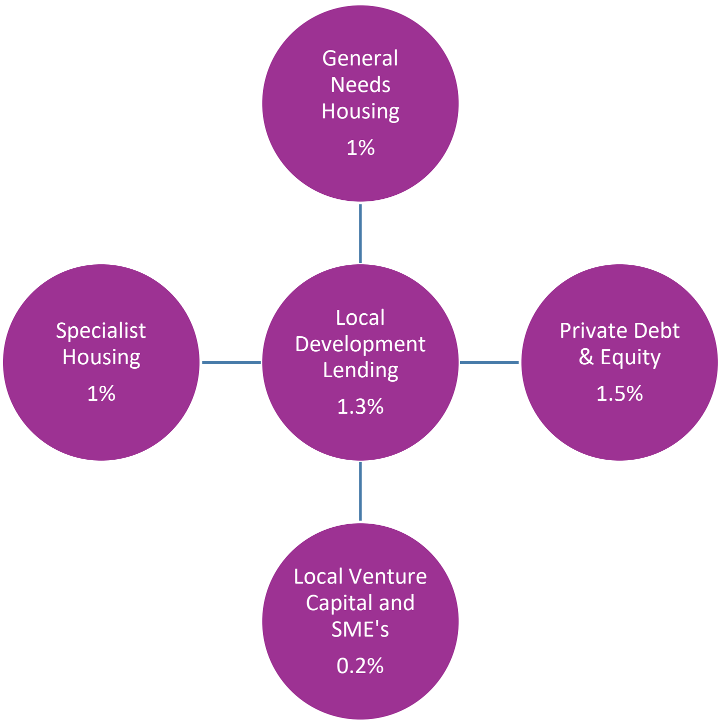
The Pension Fund will retain the decision-making powers regarding investment strategy and will delegate the investment management function to Border to Coast.

At the time of writing 70% of the Fund's assets are managed by Border to Coast and other assets (largely real estate and legacy alternatives) will transfer across to the pool on a phased basis as pooled vehicles become available or alternative investments are realised.

Where it is not practical or cost effective for assets to be transferred into the Pool, they will continue to be managed at the Fund level. These are expected to predominantly include unquoted investments such as limited partnerships. Whilst these assets are unlikely to be transferred it is expected that once these investments mature the proceeds will be reinvested into suitable Border to Coast sub-funds.

The Fund has a significant holding invested directly in a portfolio of agricultural property. Border to Coast is not proposing to develop a product in this area and if this portfolio is retained it will continue to be managed outside the Pool.

The Fund is also permitted to directly invest locally, subject to suitable risk/return characteristics where this is not available through the Pool. The Authority is aiming to create an allocation to place based impact investments with an ultimate target allocation of 5% of the Fund's asset value in line with the "Levelling Up" White Paper for LGPS funds. These allocations would form part of the various asset classes in the benchmark with the proposed allocations shown below.



The intention is to create a sufficiently diversified portfolio of investments across types of assets with income generation to address the Fund's cashflow requirements. Within this allocation the local development lending, general needs housing and local venture could be expected to be wholly South Yorkshire focussed while in the other elements we would look to work with managers to "tilt" their exposures in some way. Thus, it can be seen that we are trying to find levelling up opportunities within the scope of the strategy that has been set to fulfil the Authority's fiduciary responsibility.

Social, environmental and corporate governance policy

The Authority is fully committed to responsible investment and good stewardship of its investments. It acts at all times in the best long-term interests of all its members and looks to protect and enhance the economic value of the companies in which it invests on their behalf. It believes that well governed companies produce sustainable and superior long-term returns. Responsible investment is fundamental to the Authority as it is in accordance with the fiduciary duty owed to stakeholders.

The Authority takes its responsibilities as a long-term investor seriously integrating environmental, social and governance factors into the investment process. Environmental risks include climate change; the Authority believes that the associated risks and opportunities may have a material impact on the financial performance of the Fund and has therefore published a Climate Change policy statement which can be found on the Authority's website. The Authority has also adopted a Net Zero Goal in relation to its investment portfolios and has published an Action Plan relating to its achievement which is available on its website.

The Authority believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole. The Authority recognises that it is unable to use its policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. The Authority has published a separate Responsible Investment policy statement available to view on its website.

These policy statements and a statement specifically related to the application of responsible investment in the context of the Commercial Property portfolio are regularly updated.

This is an area where the Authority works together with Border to Coast and the other 10 partner funds, who have agreed a policy framework in this area which the Company is required to follow. This ensures that the Company is able to apply a consistent framework in this area across all aspects of its work.

The Authority invests in sustainable and impact funds which have positive social and environmental impacts. It does so only when returns are considered to be commercial and will not forego financial return in order to generate social impact.

Responsibility for the practical implementation of the Fund's approach to responsible investment is devolved to Border to Coast as the provider of investment management services. As such they are required to publish their own responsible investment policy and sign up to both the UK Stewardship Code and the UN Principles of Responsible Investment compliance with both of which will be externally monitored on an ongoing basis. Border to Coast procedures ensure that ESG issues are routinely monitored as part of the investment analysis and incorporated into the due diligence leading to investment selection and reviewed as part of the active ownership of assets under management.

The six principles of investment decision making for occupational pension schemes.

Under Regulations issued in 2009 administering authorities of the LGPS are required to report their compliance against the Principles for Investment Governance. The six Principles are intended to guide institutional investors on matters such as investment, scheme governance, disclosure and consultation and the Authority publishes a separate statement outlining its full compliance with the principles.

Stewardship

The Fund has a suite of policies addressing responsible investment and stewardship which are reviewed annually.

The Authority recognises that it is not always possible for it to conduct constructive engagement alone: therefore, it will enter directly or through Border to Coast, into collaboration with other like-minded investors when the occasion warrants doing so.

It is an active member of the Local Authority Pension Fund Forum and will join other collaborative pressure or lobbying groups if it feels it is appropriate to do so. The Authority is a member of the IIGCC which is a forum for collaboration on climate change for European investors. The Authority believes that risks and opportunities associated with climate change may have a material impact on the financial performance of the Fund and, therefore, supports the Group's objective to catalyse greater investment in a low-carbon economy by bringing investors together to use their collective influence with companies, policymakers and investors.

Border to Coast on behalf of partner funds, has also signed up to the 30% Club whose aim is to pursue gender diversity on company boards and at senior management level, the Workforce Disclosure Initiative, Climate Action 100+ and the Task Force on Climate Related Financial Disclosure.

Voting rights

The Authority regards its voting rights as an asset to be used carefully. The voting power is delegated to Border to Coast as investment manager. Border to Coast aims to vote in every market in which it operates. It has appointed a contractor to ensure that its votes are effectively executed.

The Authority subscribes to the Border to Coast voting policy which has been agreed by all partner funds and has been informed through the interpretation of best practice guidelines in consultation with the proxy advisor. Voting decisions, nonetheless, are made on a case-by-case basis bearing in mind a company's circumstances. Voting decisions will be available to view via the Fund's website quarterly.

Constructive shareholder engagement, with the aim of promoting and supporting good corporate governance principles and practice, will be pursued whenever it is deemed appropriate to do so. The Voting Guidelines collectively agreed by all 11 funds participating in the Border to Coast pool are available on the internet and can be accessed through the Responsible Investment pages of the Authority's website www.sypensions.org.uk

March 2023

SOUTH YORKSHIRE PENSIONS AUTHORITY

Report of the Member Working Group on Impact Investment

February 2023

Contents

Acknowledgement

The Member Working Group would like to acknowledge the work of Pensions for Purpose in facilitating its meetings and the contribution to its deliberations made by officers of the South Yorkshire Mayoral Combined Authority and the Border to Coast Pensions Partnership.

Introduction

At its Annual Meeting in June 2022 the Pensions Authority determined to form a Member Working Group on Impact Investment with the Terms of Reference set out at Appendix A. The Working Group was a response to two different but complimentary pressures.

1. The requirement set out in the Government's "Levelling Up" White Paper for LGPS funds "to publish plans for increasing local investment including setting an ambition of up to 5% of assets invested in projects which support local areas."

2. A desire by elected members and the South Yorkshire Mayor to achieve more local impact from the Pension Fund's investments.

Both these pressures are set within the context of the Authority's fiduciary responsibilities which are to ensure that funds are available to pay pensions when they fall due which is achieved by delivering investment returns that at least match the assumptions made by the actuary.

This report sets out the work undertaken by the Member Working Group and its recommendations which will be incorporated into the Authority's Investment Strategy Statement.

The Member Working Group and Its Process

The Membership of the Working Group was as shown below:

Barnsley MBC	Doncaster CC	Rotherham MBC	Sheffield CC
M Stowe	D Nevett	D Fisher	A Dimond
			A Sangar
			G Weatherall

The Group worked through a programme of meetings as set out below:

Date	Objective
23rd September 2022	Introductory session understanding impact investment
26th October 2022	"Levelling Up" the investable opportunity and the Fund's current exposure
14th December 2022	Discussion with SYMCA Officers about sub regional priorities and input from Border to Coast in relation to their developing thinking
17th January 2023	Agreement of priority impacts
15th February 2023	Sign off of final report for the Pensions Authority

The meetings of the Working Group were facilitated by Charlotte O'Leary and Martin Pattinson from Pensions for Purpose. Pensions for Purpose is an impact investment knowledge sharing platform which is supported by the Pensions Authority. As well as bringing expert knowledge of the impact investing marketplace and the art of the possible to the Working Group the use of an external facilitator meant that the Authority's Officers were not steering members' debates. The Authority's Director and Assistant Director – Investment Strategy supported the work of the Group.

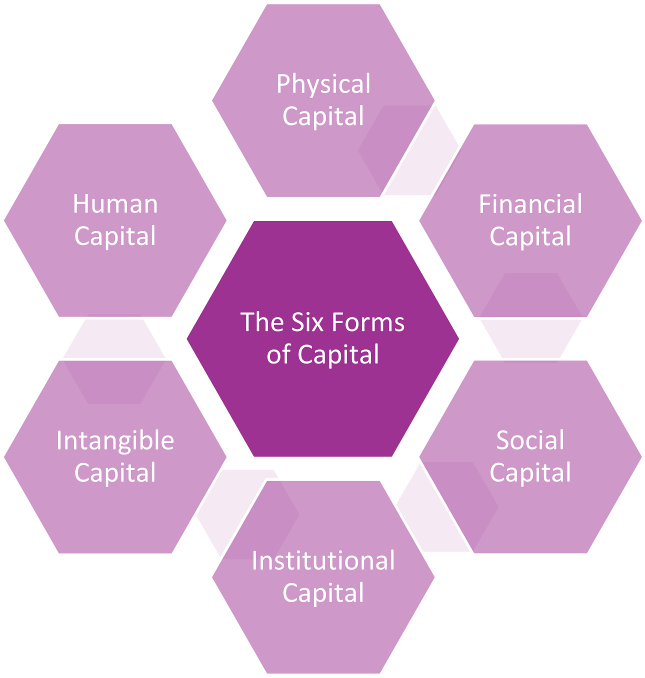
Attendance by members at meetings of the Group was as shown below:

	23/09/22	26/10/22	14/12/22	17/01/23	15/02/23
A Dimond	✓	✓	✗	✗	✗
D Fisher	✓	✓	✓	✓	✓
D Nevett	✓	✓	✓	✓	✗
A Sangar	✓	✓	✗	✗	✓
M Stowe	✓	✓	✓	✓	✓
G Weatherall	✗	✗	✗	✓	✗

The materials from these meetings have been made available for all Authority members in the online reading room.

Levelling Up and Pension Fund Investment

"Levelling Up" is the term used by the Government for a programme of activity intended to address deep seated regional inequalities, which negatively impact both the overall economic performance of the UK but also the life chances of people living in specific parts of the country. The White Paper setting out the Government's programme in this area identifies six forms of capital in which investment is required in order to achieve the various "levelling up" missions which are identified as objectives for 2030. These are shown in graphic below:



Some of these forms of capital represent things which a pension fund can invest in, for example new factories, housing, or business start-ups while others such as improving the level of skills or roads and bridges really require action by individual businesses or the state (whether local or national).

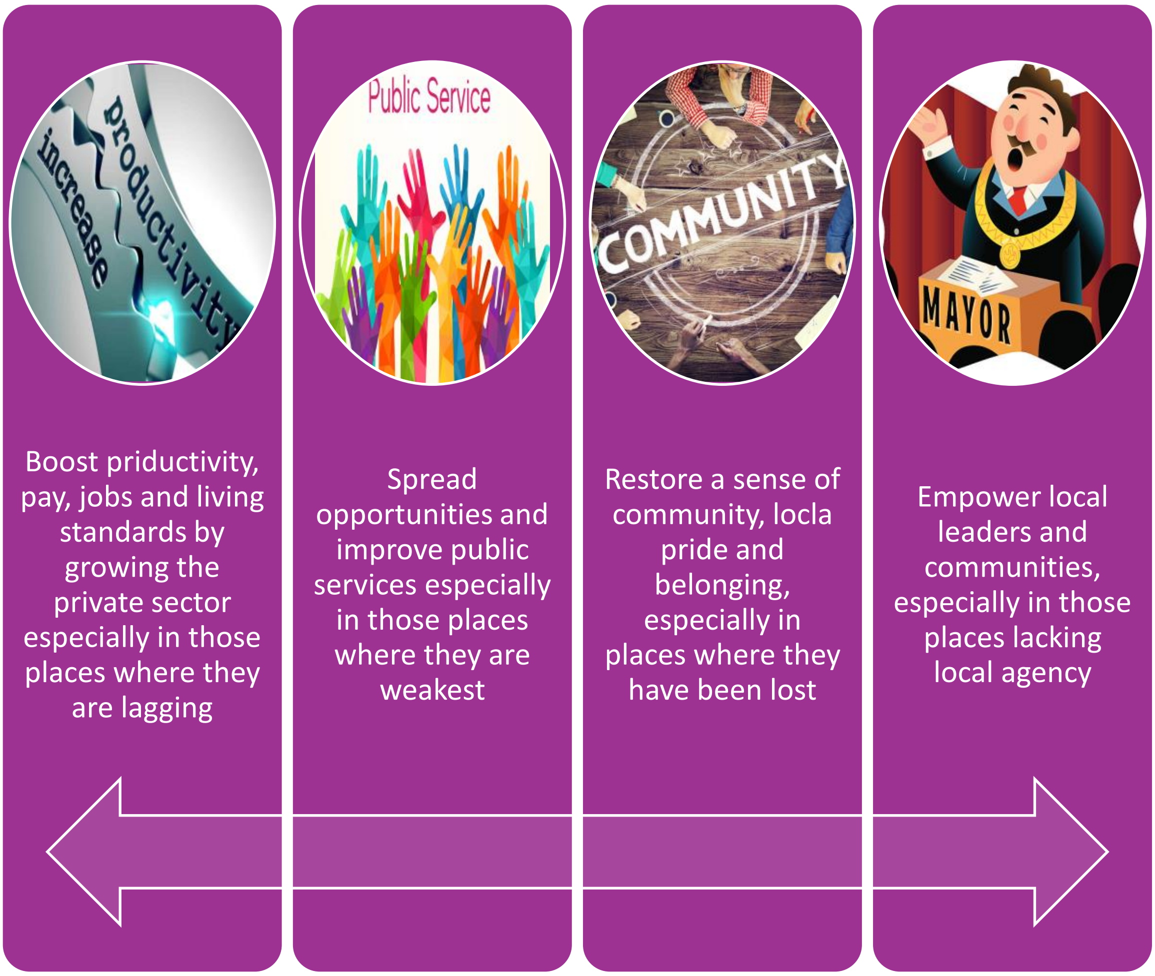
In simple terms institutional investors such as the Pension Fund can invest in:

- **Physical Capital** – Either through owning or financing the development of physical assets.
- **Financial Capital** – Through the provision of either equity or loan capital to businesses
- **Intangible Capital** – Through investment in venture capital and start-ups which capture innovation.

It is also possible to invest in some forms of social capital depending on how it is defined or viewed, for example the Authority has an investment in a fund which manages cemeteries and crematoria, which could be viewed as social capital, although it might equally be viewed as a property investment making it a physical capital investment.

All of these types of investment can give returns which meet the Authority's required rate of return within the current risk appetite, which is, of course, the Authority's overriding investment objective.

So, there are types of investment that the Pension Fund can make which will support “levelling up”, but if these are genuinely going to support the process then each investment will in some way need to address the various “levelling up” missions and the underlying longer-term objectives. The missions are:



So, the conclusion is that there are some opportunities for the Pension Fund to find return through addressing the types of capital required for “levelling up” if that capital can be focussed in the right places. In addition the types of investment that could be made are within the scope of the current investment strategy and strategic asset allocation,, meaning that allocating to investments focussed in some way on “levelling up” does not mean a change in the Authority’s overall investment strategy. Thus, this is simply SYPA seeking new places to find the required returns (business as usual) which coincidentally meets the “ask” from government.

Investing to Achieve “Levelling Up” in Places

A focus on “levelling up” in addition to return in relation to any investment requires two additional lenses to be added to the toolkit for analysing any investment opportunity, the first is does it achieve an impact in relation to one of the “levelling up” missions and the second is does it achieve that impact in a place which requires such investment in order to address its entrenched inequalities. So, in essence the “ask” from government of the Local Government Pension Scheme in relation to “levelling up” is to allocate some funds towards what is called “Place Based Impact Investment” (PBII).

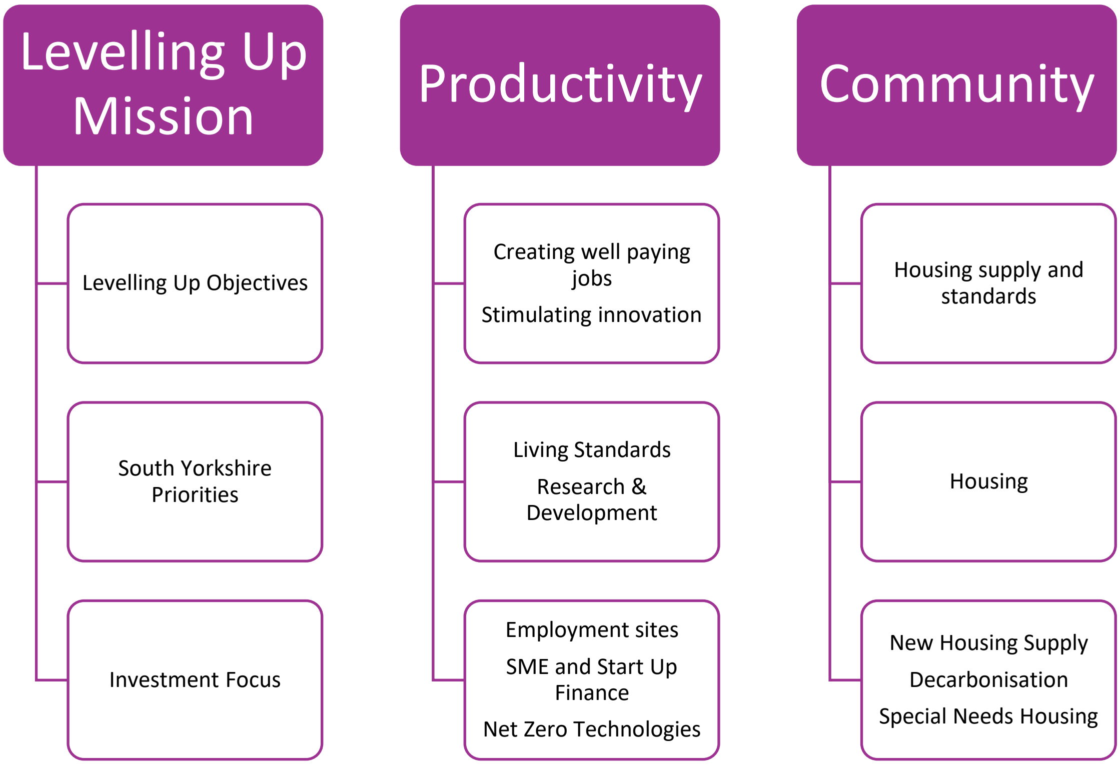
However, with many investments it is not possible up front to specify the geography over which capital will be deployed, for example a venture capital fund may not have a full pipeline of identified deals when it is raising funds. Equally there are some types of investment where it would not be appropriate from a risk point of view for all the assets to be concentrated in one geography. So, while members might want to prioritise investment in South Yorkshire there may be very good reasons why fund managers do not want to be restricted in this way. It is also the case that some investments outside South Yorkshire can have benefits for the area, for example improving the port infrastructure at Immingham might provide better export access for South Yorkshire business.

The debate in the Working Group was clear that there is a desire to prioritise investment in South Yorkshire within any allocation towards PBII, although there is an acceptance that where we are investing in managers’ product we will not be able to dictate this although we might be able to negotiate what are called “sidecar” arrangements to maximise the Authority’s share of the genuine local exposure. Equally there may well be some funds with a slightly wider geographical footprint including South Yorkshire that we would wish to support. An example of this would be the Northern Gritstone Fund which invests in university spin out companies including those from the University of Sheffield (we have not invested in this fund due to being over allocated to Private Equity, but would have done had this not been the case).

There are a number of ways which a goal in relation to place could be framed and more work is required to work out the art of the possible given the starting position (see below) but it would need to be set on the basis of gradually ratcheting up South Yorkshire exposure as existing investments are realised and capital can be redeployed in a more targeted way.

Beyond the issue of geographical targeting there is the question of what particular impacts the Authority would like to achieve through this form of investment and how they relate to the levelling up missions and the attached metrics.

Discussion within the Working Group identified the following as being potential areas of focus. These focus on the two “levelling up” missions, productivity, and community, which are more obviously investable. However, there may well be second order impacts on objectives which contribute to the other missions, for example housing investment or regeneration type investment such as the Authority’s support for Little Kelham and Eyewitness Works might positively impact on the sense of civic pride. The graphic below also shows how these areas of focus link to the priorities identified by the South Yorkshire Mayoral Combined Authority in their presentation to the Working Group.



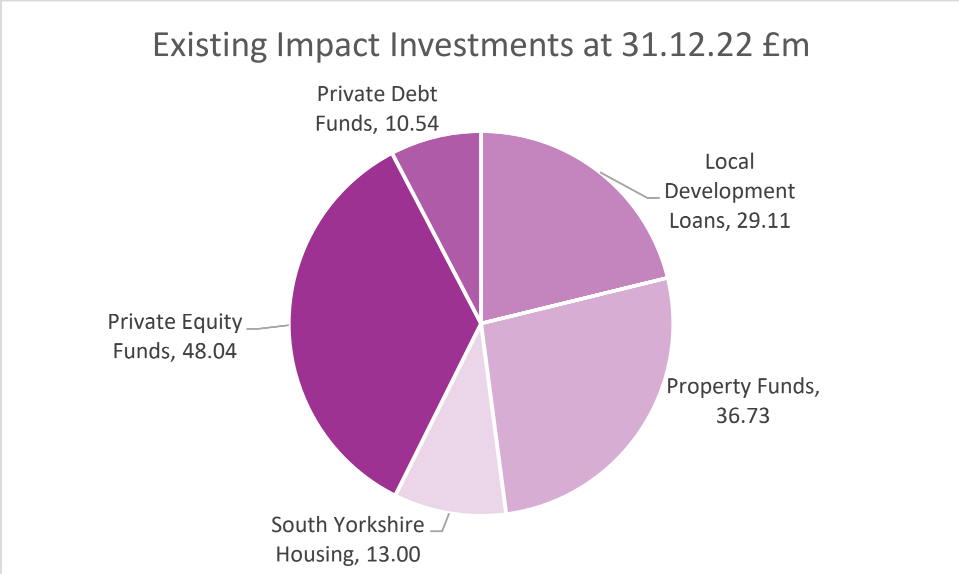
This illustrates the fact that it should be possible to develop a portfolio of investments which has a positive impact on the "levelling up" missions while also addressing specifically South Yorkshire priorities while still achieving the Authority's expectations in terms of return.

It is also important to note that these types of investment are within the Authority's existing risk appetite as they are types of investment that we already make. This is important because the overall level of investment risk we are prepared to take should not be altered if we alter how we make particular types of investment.

However, we are not starting with a blank sheet of paper as set out in the next section.

The Starting Point

As at 31st December 2022 existing impact focussed investments within the various alternatives portfolios and the property portfolio totalled £137.42m in drawn cash made up as shown below



This portfolio consists of 22 different investments made across vintages from 2010 to date (more details are in Appendix 2). These represent around 1.5% of the Fund rising to 2- 2.5% when undrawn commitments are considered.

While these funds were not chosen because of a more local South Yorkshire impact there will be some and they were selected in the first place because their impact focus gave a differentiated source of return.

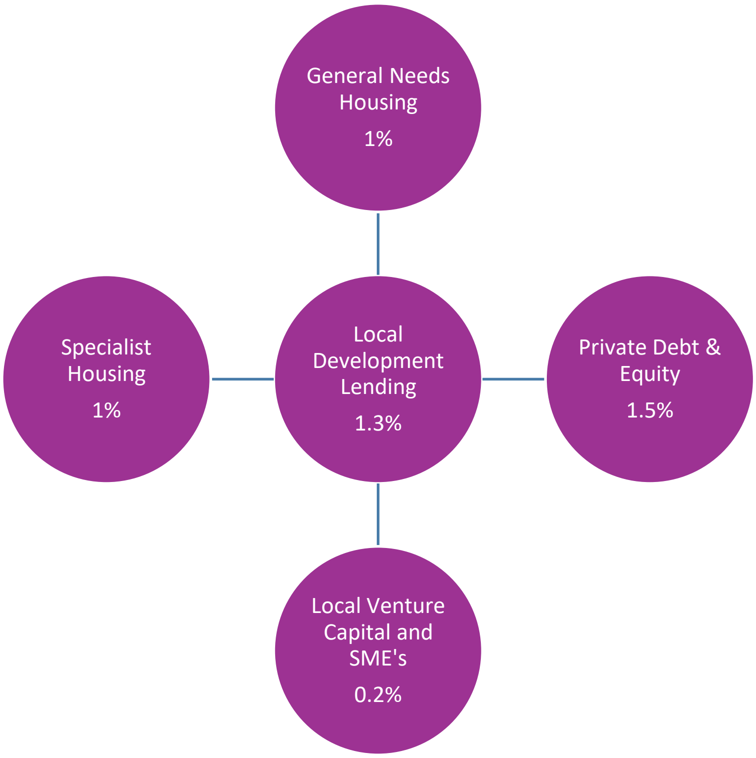
Therefore, it seems sensible to use this portfolio as the basis for building a more structured impact portfolio, with a clearer, though not entirely, South Yorkshire focus. This will mean that as the existing funds are realised resources will be reinvested in new funds selected to meet the new portfolio brief. This will avoid the so-called J curve effect that is present as investments of this sort build up and are gradually drawn down, and is a realistic and pragmatic approach to portfolio reconstruction in the alternatives space.

Following from this, however, is a need to arrive at a brief for the optimum make up of an impact portfolio which addresses the priorities identified by the Working Group.

Designing a Place Based Impact Portfolio

The approach outlined to designing a Place Based Impact Portfolio is to build on the specifically place based investments which are already in place.

The design outlined below looks to create a portfolio built around the core of the existing local development loans portfolio and then make specific "satellite" allocations both with a specific South Yorkshire focus and where we will look to work with fund managers to secure additional South Yorkshire exposure through sidecars or other similar arrangements. The intention is to create a sufficiently diversified portfolio of investments across types of assets with some income generation to address the Pension Fund's cashflow requirements. This design assumes an aspiration to move to the 5% of the Fund that is identified by the Government.



Within this portfolio the local development lending, general needs housing and local venture capital allocations (the spine in the centre of the above diagram) would be expected to be wholly South Yorkshire focussed while in the other elements we would look to work with managers to "tilt" their exposures in some way. The two housing allocations and the local development lending allocations would be expected to generate regular income

The Local Venture Capital and SME allocation is set deliberately low, at this point, as this will start as a pilot project with the possibility of growing over time. This would require the Authority to appoint a fund manager for the allocation. In an ideal world other local actors would invest in a fund structure of this sort alongside the Authority, although this need not be a pre-condition. A pilot is proposed in this area for a number of reasons. Firstly, it is not clear what the level of demand for this type of capital is and secondly, we currently do not have sufficient information on the risk/return characteristics of the underlying investments in such a fund to understand the level of downside risk. Ultimately if a pilot exercise is successful this element could be scaled up and the generic private debt and private equity portfolio reduced. This allocation could provide an opportunity to specifically target investment in businesses which are supporting the Net Zero transition.

A similar approach could be taken to the General Needs Housing allocation. In this case while we already have some South Yorkshire exposure this is limited to a fortuitous extension of a previous investment. Cornwall Pension Fund have a model here involving the appointment of an external manager which could potentially be applicable to the South Yorkshire context.

In general terms these investments will be outside of the pooling structures. However, in order to achieve the goal set out in the pooling guidance of having no more than 5% of assets invested outside of the pool and given that at least 1% of other assets will be outside of the pool longer term there is a need to accommodate some investment within this overall portfolio in the UK Opportunities product being developed by Border to Coast. This would provide some diversification within the Private Equity and Private debt element of the portfolio and would also allow the Authority to continue to influence the development of this product and in particular its impact objectives. The forthcoming consultation on LGPS Investment Matters may also provide an opportunity to debate issues of this sort in order to achieve greater clarity on what is and is not "pooled" and "poolable".

Implementation

Implementation of a new distinct allocation of this sort cannot be a simple one-off transition as would be the case for a new listed equity mandate. Our existing impact investments are held in a range of fund structures most of which are closed end funds, i.e. they have a defined life and are at various stages of their life. Others are in open ended funds which do not have a defined life and can be more easily exited but are not instantly liquid. The implementation process to move to the desired portfolio is therefore likely to be made up of a number of elements as set out below:

Cash from Return on Existing Impact Investments

- Redirected into new investments in line with the overall portfolio design
- Available at regular stages throughout the year, although not necessarily predictable.

Open Ended Existing Impact Investments

- Take advantage of exit and liquidity options as they arise.
- Timing will need to reflect availability of new investments into which realised cash can be deployed.

Share of Annual New Commitment to Alternatives

- Restructure annual commitments to the various alternatives portfolios in order to reflect the creation of this additional portfolio.
- Will allow an annual round of commitment to new transactions.

This process means that this new portfolio will move to the new portfolio design and build up over a period of time in the same way as the existing alternatives portfolios have done and it will likely take between 5 and 10 years before there is a portfolio that is wholly in line with the proposed design and is reinvesting its own realised investments in the same way as, for example, the mainstream private equity portfolio is currently doing.

Having reflected on how an allocation of this sort should be reflected in the Strategic Asset Allocation and taken the advice of the Independent Advisers the most sensible approach seems to be to earmark the appropriate element of each of the underlying asset classes (e.g. private equity, and private debt) rather than show the Place Based Impact allocation as a specific line in the Investment Strategy Statement. This reflects the fact that the primary driver of these investments is to achieve the returns targeted in each asset class. For other reporting purposes it would be appropriate to draw out this portfolio separately.

There will be other aspects to implementation including the procurement of investment managers and fund selection for new investments which will need to be addressed as part of the usual business planning process.

Measurement and Reporting

Any impact portfolio needs to be able to demonstrate that the impacts that it is seeking to achieve are actually being delivered and in the context of “levelling up” it is important that this is demonstrated to stakeholders through appropriate reporting. In addition as for any portfolio we need to be able to demonstrate that the relevant return targets are being met.

The latter element is part of business as usual which can be fairly simply addressed, and is of course the primary measure of the success of any investment the Authority makes. However, the assessment and measurement of impact and in this case importantly where it is felt is a specialist field which will require the Authority to secure external assistance.

We have already participated in pilot work to develop a reporting framework for place based impact investment and we are continuing to expand the number of funds which this applies to which will allow the geographic impact of the current portfolio to be assessed focussing down to the impact in South Yorkshire which if the strategy outlined above is successful will grow over time.

The “levelling up” white paper contains metrics attached to the various mission and objectives and where appropriate these can be used within the reporting framework that has been developed, which may provide a basis for comparing the success of different approaches to place-based impact investing and hence promote the adoption of best practice.

Over time the measurement process will need to become more stringent and widen to include a degree of verification to avoid the risk of “impact washing”. Again, this is something which will require external assistance.

Conclusions and Recommendations

It is clearly possible for the Authority to invest in local assets which support the "levelling up" agenda and make a return. As well as having positive benefits through the impact of these investments they deliver return from different sources and places which is a positive in terms of managing the investment risks facing the Fund.

While it is possible to grow the level of investment in South Yorkshire over time it is not practical to achieve a properly diversified portfolio of investments entirely within the County and in many cases fund managers are unlikely to raise funds solely targeting the County. While there are things that can be done that will result in an increased exposure to the truly local area it has to be accepted that the suggested impact portfolio will never be wholly invested in South Yorkshire and for this reason a core and satellite approach to portfolio construction is proposed.

As a result the of the above and the proposals set out in this report the Working Group makes the following recommendations to the Authority.

1. The Authority should within its investment strategy commit to creating a place-based impact portfolio structured as set out on page 10 with an ultimate target allocation of 5% of the Fund's asset value, to be achieved by a process of earmarking parts of the relevant underlying asset class allocations.

2. The initial core of this portfolio should be the current impact holdings set out in Appendix 2.

3. The process of transition to the new portfolio should follow the broad approach set out on page 12.

4. Officers should work up more detail on the measurement and reporting framework and in particular the metrics to be used for agreement with members.

5. Officers should develop proposals for the procurement of investment managers for elements of the General Needs Housing and Local Venture Capital and SME allocations involving appropriate sub regional stakeholders.

6. Progress on delivering on these recommendations should be included in the regular investment reports provided to the Authority.

Appendix 1 – 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.

Appendix 2 – Existing Holdings

Fund	Value at 31.12.22 £m	Vintage Year
Local Development Loans	29.11	
Property Funds		
Bridges Property III	7.88	2014
Bridges Property IV	7.13	2016
Bridges Property V	7.95	2020
St Brides White Rose	13.77	
St Bride's S Yorks Residential	13.00	
Total	**49.73**	
Private Equity Funds		
Bridges III	3.17	2012
Bridges IV (B)	3.90	2021
Foresight Regional	13.11	2016
Palatine II	3.28	2012
Palatine III	7.27	2015
Palatine Impact Fund II	1.82	2022
Panoramic	0.97	2010
Panoramic 2	3.11	2015
Westbridge	0.80	2012
Westbridge II	10.62	2018
Total	**48.04**	
Private Debt Funds		
Beechbrook	1.94	2015
Beechbrook II	8.60	2019
Total	**10.54**	
Total Impact Investments	**137.42**	

SOUTH YORKSHIRE
PENSIONS AUTHORITY

Agenda Item

Subject	**Annual Review of Responsible Investment Policies**	**Status**	For Publication
Report to	Authority	**Date**	16th March 2023
Report of	Director		
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 secure approval for the Authority's various responsible investment policy documents following their annual review.

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2 Recommendations

2.1 Members are recommended to:

a. Approve the following revised policy documents appended to this report

- **i. The Responsible Investment Policy (Appendix A)**
- **ii. The Climate Change Policy (Appendix B)**
- **iii. The Net Zero Action Plan (Appendix C)**
- **iv. The Annual Commitment to the Impact Investing Principles for Pensions (Appendix D)**

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3 Link to Corporate Objectives

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

Responsible Investment

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

Regularly reviewing and updating policy documents related to Responsible Investment ensures that the Authority's policy stance continues to evolve to address the ever widening and more complex range of issues facing investors in this area.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report specifically address the climate related risks include in the Corporate Risk Register and the various risks related to the maintenance of an effective investment process.

5 Background and Options

5.1 Each year the Authority conducts a review of its various responsible investment policies to ensure that they remain up to date and relevant and that the policy stance articulated continues to seek to move the collective policies adopted by the Border to Coast Pensions Partnership in a direction which the Authority can support. The diagram below shows the various aspects of the Responsible Investment policy framework and how they related together and also their relationship to the various collective Border to Coast policies.

5.2 The Commercial Property policy does not require any updating this year and it is proposed to not review this further given the proposed timing of the launch of the Border to Coast property products at which point a specific SYPA policy of this sort will no longer be required although some changes will be required to the main Responsible Investment policy.

5.3 In addition to these documents an annual review has also been conducted of the Statement of Commitment to the Impact Investing Principles for Pensions. A review of this sort is good practice for any standard like this to which the Authority subscribes and it is presented here for convenience.

Responsible Investment Policy (Appendix A)

5.4 The Responsible Investment Policy has not required major changes. However, there are some significant changes at the detailed level in terms of the stance the Authority is proposing in relation to certain issues and how it wishes to influence the Border to Coast Partnership in future. In particular this spells out a wish to see the revenue threshold for exclusion of companies exposed to pure coal and coal sands to be set on a trajectory reducing to zero before 2030. In addition, it commits the Authority to seeking a more defined approach to assessing the effectiveness of engagement processes together with the defining of clear criteria for the failure of engagement and of the consequences of failure up to and including disinvestment in individual companies. In addition to these changes further changes have been made to include the option of "denying debt" in relation to fixed income portfolios. This can, for some companies, be a more impactful approach than disinvestment, and is something that is reflected in the latest Border to Coast policies. Again, the Authority would wish the criteria for denying debt as a result of the failure of engagement to be clear and automatic.

5.5 Achieving these objectives will not be easy and partners may have differing views on these issues. However, the views articulated by elected members which have influenced this position are clearly that for a policy of engagement to have "teeth" there needs to be clearer definition of and more automaticity in the consequences of failure. It is also likely that the Authority will more often consider voting in a different way to the rest of the partnership particularly where companies' plans for the climate transition lack credibility. However, given the constraints of resources and the timescales to undertake the necessary analysis to support such decisions it remains the case that such occasions are likely to remain the exception.

Climate Change Policy (Appendix B)

5.6 This Policy is at a very high level and sets out the Authority's broad approach to the issue and the allocation of responsibility as between officers and members in line with the Task Force on Climate Related Financial Disclosures. The limited revisions to the Policy reflect the tightening of the position set out more clearly in the overall RI policy.

Net Zero Action Plan (Appendix C)

5.7 This document sets out the actions proposed in the coming year to move the Authority along the road to decarbonising its investment portfolios. The most significant changes to the document this year are the inclusion of more information about the approaches to decarbonisation for individual asset classes and some additional information on the progress against emissions reduction targets. In addition, the document reflects actions to secure the more stringent position in relation to engagement set out in the RI policy.

Statement of Commitment to the Impact Investing Principles for Pensions (Appendix D)

5.8 This Statement sets out the additional actions undertaken in relation to each of the principles over the last year. This reflects the significant steps taken to carve out a specifically impact focussed portfolio which are elsewhere on the agenda for this meeting.

6 Implications

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

Financial	There are no direct financial implications arising from this report.
Human Resources	None
ICT	None
Legal	It is a requirement of the relevant LGPS regulations that the Authority set out its position in relation to Environmental, Social and Governance issues in its Investment Strategy Statement. These documents set out the arrangements for the detailed implementation of this statement and also set out the strategic arrangements which are required as the foundation of arrangements for meeting the requirements of the Task Force on Climate Related Financial Disclosure which will become a regulatory requirement within the next 12 months.
Procurement	None directly.

George Graham

Director

Background Papers	
Document	**Place of Inspection**

RESPONSIBLE INVESTMENT POLICY

This Policy details the SYPA's approach to fulfilling its responsibilities with regard to responsible investment and stewardship.

Context

This policy is set in the context of the implementation of the Government's agenda for the pooling of the investment assets of the Local Government Pension Scheme in England and Wales. SYPA has chosen to participate in the Border to Coast Pensions Partnership. While SYPA retains responsibility for setting a policy stance in relation to responsible investment issues this will be implemented by Border to Coast, who have developed a collective policy on responsible investment and associated voting guidelines in conjunction with the 11 partner funds.

While endorsing the collective policy adopted by Border to Coast SYPA would like to move further in some areas and this policy sets out where the Authority will seek to influence partners and other organisations, such as the Local Authority Pension Fund Forum, to go further. In this way there will ultimately be greater collective weight behind the achievement of the Authority's responsible investment objectives. However, the Authority, given that it retains responsibility in this area, reserves the right to act alone where the collective view does not coincide with its own in material respects.

Beliefs

Responsible Investment as a concept is fundamental to the Authority's statement of investment beliefs. Thus it is a key part of "how we do investment" (and how we expect those who manage money on our behalf to do it) rather than an add on or overlay. SYPA has adopted the following statement of its Responsible Investment beliefs.

South Yorkshire Pensions Authority believes that investing in well governed and sustainable assets is key to delivering the long term investment returns required by the Pension Fund. The Authority's goal is for carbon emissions from the totality of its investment portfolio to be zero by 2030 (the "Net Zero Goal") and has developed a net zero action plan to chart its route to this goal. This action plan includes the incorporation of this Net Zero Goal in the Authority's investment beliefs and investment strategy, and contemplates frequent review of the performance of its investments within the context of this goal, as well as monitoring of the delivery of the commitment and the transition towards it.

We believe that well governed assets will present the following characteristics:

- *A recognition of the key risks to the long term sustainability of the business, in particular climate change, and will have created action plans to address these risks over reasonable but not unduly prolonged timescales;*
- *Transparency in their governance, balancing the interests of shareholders, executives and other stakeholders including the workforce;*
- *Respect for the human rights of the communities with which they interact and their various stakeholders;*
- *Acknowledges the environmental impacts of their activities and takes steps to minimise and/or mitigate them.*

The Authority expects those managing money on its behalf to reflect these factors in their investment process and where specific risks or concerns are identified to engage with assets in order to ensure that these characteristics are met. Engagement activity will:

- *Have clear and specific objectives;*
- *Be time limited;*
- *Where unsuccessful link to clear consequences reflecting the degree to which the investment thesis for the asset has been undermined by non-compliance.*

The Authority will report each year on the impact of its investment portfolio on society using the framework of the UN Sustainable Development Goals and will where possible, given the constraints of pooling, seek to prioritise investments which address the opportunities presented in relation to:

- *SDG 13 – Climate Action*
- *SDG 6 - Clean Water and Sanitation*
- *SDG 7 – Affordable and Clean Energy*

The Authority's fundamental belief is that this approach is entirely consistent with securing the long term returns the Pension Fund is required to deliver, and that it is therefore in the best interests of both scheme members and employers.

In line with the net zero action plan the Authority will also report every year on the performance of its investments within the context of its Net Zero Goal, as well as on the delivery of the Net Zero Goal and the transition towards it.

This policy is set within the context of these beliefs.

Stewardship, Responsibility and ESG

The primary objective of any pension fund is to ensure that its assets are able to meet its liabilities when they fall due. In order to achieve this, funds have to produce the required levels of financial return without taking on undue levels of risk whilst also operating within the relevant regulatory framework.

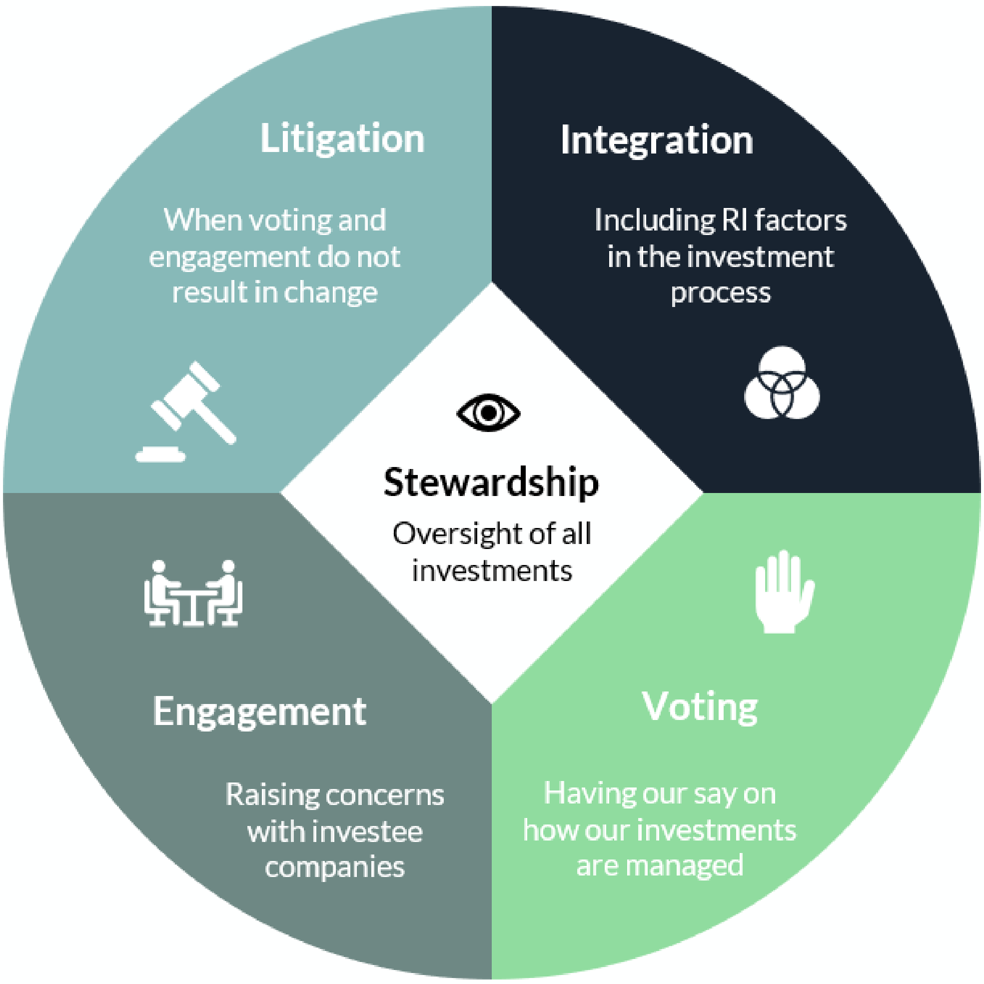
Evidence shows that pension funds which consider how the companies they are invested in behave in relation to environmental social and governance issues, tend to achieve better returns. In other words companies that are well managed and have strong governance are more likely to be successful long term investments. This accords with the expectations in SYPA's beliefs statement and reflects our overall attitude to the stewardship of the Fund. As an active investor working to a long time horizon, we are aware that businesses that operate to high standards of corporate governance along with environmental and social best practice, have the potential to protect and enhance investment returns.

The Authority, though must also consider the views of stakeholders, principally scheme members, in coming to its views in this area. While it is difficult to establish member views with precision this is an area where a great deal of research is ongoing and it is possible to distil a generic member view from this research as wanting to "do no harm" with the funds being invested on their behalf. This provides a broad principle that underpins our beliefs in this area.

There are five major components to our RI approach:

1) **Stewardship**: ensuring the Authority's RI expectations cover all assets and are being met through monitoring
2) **Integration**: ESG factors being included into the analysis process of investments managed by the Authority and its external asset managers
3) **Voting**: using shares to 'have its say' by voting at the meetings of the companies owned
4) **Engagement**: talking to companies in which it invests about issues of concern and encouraging them to adopt better practices
5) **Litigation**: acting against companies where voting and engagement have not solved specific issue(s) of concern, although in the context of pooling any litigation is likely to be undertaken by the pool company.

The way in which these relate together is shown in the diagram below:



Our awareness of ESG issues when making investments means that we have adopted what is known as a responsible investment (RI) approach; incorporating ESG issues into the investment decision making process allows us to better manage risk and to generate sustainable long-term value.

Governance and Implementation
Under the LGPS (Management and Investment of Funds) Regulations 2016, the Authority is responsible for stewardship, which includes shareholder voting. The implementation of policy is delegated to Border to Coast with the Authority undertaking monitoring, scrutiny and challenge to ensure that the objectives of SYPA's policy are delivered. Regular reports to the Authority will aid the process of monitoring the effectiveness of the policy with a review at least annually to feed into the review of Border to Coast's various collective policies.

Skills and competency
Officers at the Authority together with the staff at Border to Coast will maintain appropriate skills in responsible investment and stewardship through continuing professional development, and where necessary take expert advice from suitable RI specialists to fulfil obligations and responsibilities. In addition relevant training will be offered to members of the Authority as part of their learning and development programme.

Integrating RI into investment decisions
The Authority considers, and asks its service providers such as Border to Coast to consider environmental, social and corporate governance (ESG) issues when carrying out financial analysis and investment decision making and encourages companies to improve their practices in these areas. The factors considered are those which can cause financial and reputational risk, ultimately resulting in a reduction in shareholder value.

ESG issues will be considered and monitored in relation to both internally and externally managed assets. Border to Coast is accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

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

Border to Coast directly manages the majority of the Authority's assets (including all its listed assets) and the steps it takes in order to ensure proper stewardship and consideration of ESG issues are set out in the policy endorsed by all 11 partner funds, which is available on the Border to Coast website and is reviewed annually.

Stewardship

The Fund, as a shareholder, has responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers and will practice active ownership through voting, monitoring companies, engagement and litigation to promote and support good ESG practices. In the pooled environment these activities will be exercised through Border to Coast in line with policies and guidelines agreed by the partner funds. The Authority, as an asset owner, seeks to operate in line with the UK Stewardship Code, which aims to enhance the quality of engagement between investors and companies to help improve long-term risk adjusted returns to shareholders. The Authority requires Border to Coast to be a signatory to both the UK Stewardship Code and the UN Principles for Responsible Investment.

Voting

Voting rights are an asset to the fund, and the Authority, in partnership with Border to Coast, will use them carefully to promote and support good corporate governance principles with the aim of voting in every market it invests in.

A specialist proxy voting advisor, Robeco has been appointed by Border to Coast to provide analysis of voting and governance issues and to ensure that votes are executed in accordance with its policies. The proxy voting advisor will implement a set of detailed voting guidelines provided by Border to Coast and agreed by the partner funds, which are available on the Border to Coast website, to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case by case basis. A degree of flexibility will be required to reflect specific company and meeting circumstances.

A process is available to allow the Authority to vote its proportion of any shareholding in a different way to the other Border to Coast partner funds should there be a difference in interpretation of the voting guidelines between the Authority and Border to Coast and Robeco. While this facility is only likely to be used rarely the Authority will consider its use in the case of shareholder resolutions where the common stance proposed by the operating company fails to meet the Authority's policy objectives, and in particular where companies are failing to deliver clear and deliverable climate transition plans. Votes will only be cast separately if the Chair in consultation with the s41 members agrees, as set out in the protocol for urgent decisions between meetings of the Authority.

The funds managed by Border to Coast form part of stock lending programmes. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings when:

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

SouthYorkshirePensionsAuthority

- Border to Coast deems it appropriate

Stock lending can also be restricted in these circumstances.

Where appropriate Border to Coast will consider co-filing shareholder resolutions which support the long term economic interests of shareholders and will notify the Authority in advance of doing so. Equally the Authority may encourage Border to Coast to co-file resolutions which support its objectives, where it is made aware of such opportunities for example through the Local Authority Pension Fund Forum (LAPFF).

The Authority will also look to Border to Coast and others managing money on its behalf to "join up" the voting position in relation to a company's issued equity with action in relation to bonds issued by the Company including where appropriate "denying the debt" as a means of influencing behaviour change on behalf of companies.

Engagement
The best way to influence companies is through engagement. As a responsible investor, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies is an integral part of the investment process. The Authority expects all those managing its assets, of whatever type, to engage with companies across all markets and to report back on the outcomes of such engagement.

Border to Coast's contract with Robeco provides the principal (but not only) means of engagement with companies across the world, covering environmental, social and governance issues as well as UN Global Compact breaches. The UN Global Compact is a shared framework covering ten principles, recognized worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

The Authority (along with the other ten Border to Coast partner funds and the pool Company) is an active member and supporter of the Local Authority Pension Fund Forum (LAPFF) and encourages LAPFF in its campaigns and initiatives. The Authority will also engage with regulators, public policy makers, and other financial market participants as and when required. It will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the Task Force on Climate related Financial Disclosures (TCFD) recommendations and other developing initiatives, such as the Workforce Disclosure Initiative (WDI) and Task Force on Nature Related Financial Disclosure (TNFD).

Engagement Themes
The Authority recognises that there are insufficient resources within the system to be able to engage across the whole range of possible issues and therefore it supports both Border to Coast and LAPFF to identify specific themes or areas of focus, based on the key issues identified in the beliefs statement. The Authority endeavors to ensure that each of these two major routes for engagement to some degree focus on different areas. The factors

considered in choosing areas of focus are:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that ambitious, but achievable milestones can be set through which we can measure progress over the period

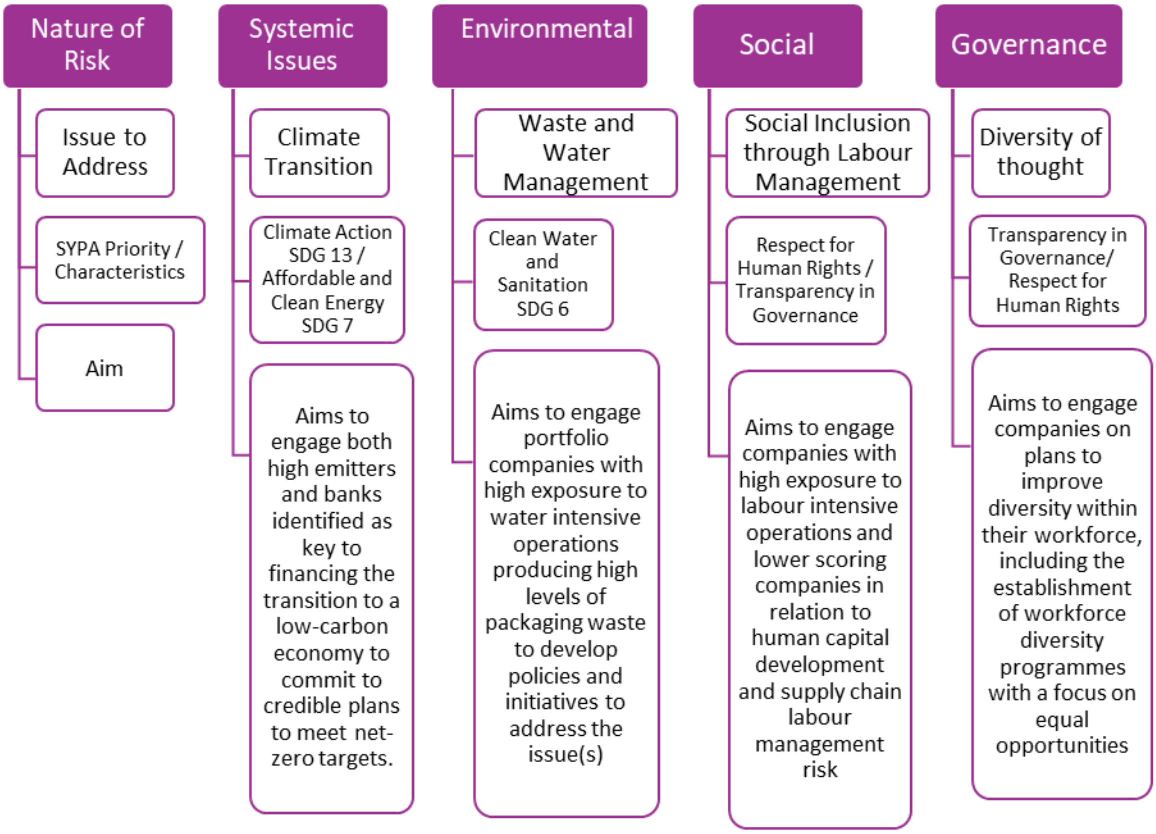
These factors mean that the choice of themes is driven by the material ESG risks facing the portfolios and their financial materiality.

In the case of both Border to Coast and LAPFF the views of the various partner funds involved mean a process of discussion is required which results in some degree of compromise.

For the 2022 – 25 period Border to Coast's key engagement themes are:

- Low Carbon Transition – which is an explicit priority for the Authority within its beliefs statement as part of achieving the Net Zero Goal and links to the priority attached to SDG's 7 and 13.
- Diversity of thought – which is reflected within the beliefs statement in relation to the way in which companies manage their activities and engage with stakeholders
- Waste and water management – which relates to the specific priority attached to SDG 6
- Social inclusion through labour management – which is reflected within the beliefs statement in relation to the way in which companies manage and engage with their workforce.

The diagram below shows how these themes relate to the Authority's priorities



LAPFF's planning cycle does not fully align with that of the Authority, however the key engagement themes identified in the draft workplan and how they relate to the Authority's priorities are as follows:

- Climate – with themes around "netting" technologies, climate aligned accounts, company resilience, the Just Transition and Electric Vehicles. A number of these themes compliment the Border to Coast priority and this area reflects the priority attached to climate issues and Net Zero within the beliefs statement.
- Employment Standards and Supply Chains – with themes around supply chain standards, Covid risks, Human Rights and diversity. These issues are reflective of the standards of behaviour of companies set out as expectations within the beliefs statement.
- Sustainability and Shareholder Value – with themes around commodities, deforestation, plastics and public health; water security; housebuilders; and water companies and sewerage. Elements of this theme relate to the priority attached to SDG 6 while others have a connection to the priority attached to climate action.
- Good governance – with themes around reliable accounts and cyber security. These are areas where LAPFF has long had a focus and while not directly linked to the Authority's own priorities are recognised as important areas of work and focus on the basic standards of governance that should be expected of any organisation.

Based on this the resources on which the Authority relies for direct engagement are largely focused on the priorities identified in the beliefs statement, with the significant emphasis on climate issues reflecting the priority attached by the Authority to the achievement of Net Zero.

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

The Authority will be looking for those acting on its behalf (principally Border to Coast) to set out when launching an engagement process much clearer consequences of failure by companies to make progress particularly in relation to the production of clear and deliverable climate transition plans. It is expected that these consequences will include the identification of the point at which the investment case for a company is undermined by their failure to address the issues raised in the engagement to such an extent that divestment is the appropriate course of action. The Authority recognises that it cannot move on this alone given that all its listed investments are in pooled funds and will be explicitly seeking to influence its partners to agree to policies of this sort.

Litigation
Where assets held by the Authority are subject to individual or class action securities litigation, it will, where appropriate participate in such litigation.

There are various litigation routes available dependent upon where the company is registered. The Authority will use a case-by-case approach to determine whether or not to participate after having considered the risks and potential benefits. The Authority in the past has used industry professionals to facilitate this. Border to Coast follow a similar model to the Authority on the assets it holds on SYPA's behalf, and given the fact that all listed assets are now managed by Border to Coast it is unlikely that the Authority will need to directly participate in litigation of this sort.

Due Diligence and Monitoring
Given the degree of reliance which the pooling arrangements mean the Authority has to place on Border to Coast we have to place reliance on the company's controls and processes both within the organisation and for monitoring other providers such as Robeco. We rely on the information provided by the company's auditors in their audit assurance (AAF) control review for assurance as to the effectiveness of the controls and processes in place within the company.

In addition we monitor the regular reports provided by both Border to Coast and Robeco to identify areas of potential non-compliance with agreed policies and also review Border to Coast's voting in relation to LAPFF voting alerts.

We also work with the other 10 funds within the Border to Coast Partnership to monitor the Company's progress on delivering its Responsible Investment Strategy through the Responsible Investment Officer Operations Group (RI OOG).

Communicating and reporting
The Authority will report on its RI activities periodically and will keep beneficiaries and stakeholders informed. This will be done by making publicly available the RI policy framework documents, publishing quarterly and annual reports on activity on the Authority's website and providing website links to information provided by Border to Coast.

The Authority will engage assistance to develop means of reporting on the impact of its investments across the full range of ESG issues and across all asset classes to supplement the information provided by Border to Coast in relation to the assets which they directly manage. This process will support enhanced reporting under the Stewardship Code.

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

The Authority will also buy in training from other providers to support the learning and development of Authority members and officers in this area in line with the overall learning and development strategy.

Conflicts of interest
In an event of any potential conflict of interests, a suite of policies have been drawn up between the Authority and Border to Coast.

Climate Change
The Authority recognizes the global issues and risks arising from climate change and the material impact it can have on the performance of the Fund on its liabilities. Consequently the Authority has adopted a goal of making its investment portfolio "net zero" in terms of carbon emissions by 2030. As a long term investor the Authority acknowledges its responsibilities and is committed to looking at ways in which it can address this situation, by participating with like-minded investors and partners in initiatives such as Institutional Investors Group on Climate Change (IIGCC), the Taskforce on Climate Related Financial Disclosure (TCFD) and Climate Action 100+. The Authority will also expect Border to Coast to be aware of the investment risks associated with Climate Change and to take appropriate action to identify them and mitigate their impact, including involvement in appropriate collaborative groups. The specific actions to be taken by the Authority in relation to climate change are set out separately in the Climate Change Policy and Net Zero Action Plan.

March 2023

Climate Change Policy

South Yorkshire Pensions Authority's primary responsibility is to deliver the returns needed to pay scheme members' pensions, whilst maintaining stable and sustainable contribution rates. The Authority is a long-term investor and as such has to ensure that its investments are sustainable. In doing so it actively considers how environmental, social and governance (ESG) issues can be taken into account when managing investment portfolios.

The Authority has a fiduciary duty to consider ESG issues where it is considered that they could have a material financial impact on the Fund's performance. This is supported by the 2014 Law Commission review which concluded that ESG factors should be taken into account where Trustees think that issues are financially material to the performance of an investment. The applicability of this approach to the Local Government Pension Scheme was confirmed in the Supreme Court's 2020 judgement in the Palestine Solidarity Campaign case. The Pensions Regulator also issued guidance in 2017 for Defined Benefit schemes, stating that ESG factors need to be taken into account if they are deemed to be financially significant and the regulations for trust based pension schemes have been updated to require trustees to set out their approach to ESG issues. The Local Government Pension Scheme Regulations also require the Authority to set out its position in relation to the consideration of ESG issues as part of its Investment Strategy Statement. The greatest potential environmental risk, indeed the greatest single risk, without qualification, to the Authority's investments is climate change, where the associated risks and opportunities may have a material financial impact across all asset classes. The systemic nature of climate change risk has the potential to reduce returns across all asset classes and will have a macro-economic impact that could affect the entire Fund. Equally, however, the need to transition to a low carbon economy and the innovation which that will require presents a number of potential investment opportunities. Risks and opportunities can be presented in a number of ways and include:

- physical impacts,
- technological changes,
- regulatory and policy impacts,
- transitional risk and
- litigation risk.

The Authority will therefore consider climate change issues across the Fund in order to minimise financial risk and maximise long-term opportunities.

In December 2015 the G20 finance ministers and Central Bank governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate related issues. Such information is needed by investors, lenders and insurance underwriters in order to be able to assess climate related risks and opportunities. This led to the Task Force on Climate-related Financial Disclosures (TCFD) being established. Its remit was to develop a set of voluntary climate-related disclosures, which would assist in understanding the associated material risks of climate change. The final report with recommendation was published in June 2017, and can be accessed through the TCFD

website here:
https://www.fsb-tcfd.org/

Supplemental guidance has been developed for financial and non-financial organisations which includes guidance for asset owners. The recommendations were based around four pillars;

- governance,
- strategy,
- risk management and
- metrics and targets.

The TCFD framework is widely recognised as the best practice guide against which investors' actions will be assessed, and is increasingly becoming part of the regulatory framework for reporting by corporates and asset owners, with regulations applying to the LGPS expected to be implemented with effect from the 2024 financial year. The Authority has reported in line with this framework for some years. This Climate Change Policy is therefore be structured around these four themes, and the Authority commits to continuing to report in line with this framework each year.

Governance
The Climate Change Policy is owned and approved by the Authority with implementation and oversight of the Policy being by the Director; it will be reviewed as necessary, but as a minimum every two years.

The Authority is required by the LGPS Investment Regulations to invest its assets through one of the LGPS investment pools, in this case the Border to Coast Pensions Partnership , however, the responsibility for strategic asset allocation and for responsible investment and ensuring the appropriate consideration of ESG issues remains with the Authority. The Authority expects Border to Coast to implement this policy on its behalf across all its investments; it will monitor implementation and require reports from the Company at least annually in order to fulfill its obligations under the LGPS Investment Regulations and any additional reporting requirements such as TCFD.

While the Authority will aim to work collaboratively with the other funds within the Border to Coast Partnership to achieve collectively agreed goals, given that it retains responsibility in this area it reserves the right to act independently should collective action not result in the delivery of its objectives in terms of ESG issues and in the context of this policy climate change in particular.

Strategy
Climate change is an issue of greater significance than other ESG issues. It has the potential to impact returns across all asset classes (not just individual companies or sectors), and therefore has very material financial implications. The Authority will therefore expect Border to Coast (and any other managers it may utilise) to:

- be aware of the investment risks and opportunities associated with climate change;

- incorporate climate considerations into the investment decision making practices and processes; and
- monitor and review fund managers in relation to their climate change approach and policies.
- engage with companies in relation to business sustainability and climate risk disclosure and to encourage companies to adapt their business strategies to support the transition to a low carbon economy.
- recognise that while active shareholder engagement should be the first option, the Authority encourages Border to Coast (and other fund managers) to consider actively reducing exposure to high-carbon intensity companies that fail to respond to engagement by not demonstrating a decrease in carbon intensity or carbon risk and/or by failing to develop credible plans for the transition to a low/no carbon economy.
- support climate related resolutions at company meetings when deemed appropriate, and
- consider co-filing shareholder resolutions at Annual General Meetings (AGMs) on climate risk disclosure, transition plans, science based targets and related issues, such as trade association lobbying after engagement with its Partner Funds.
- Set out as part of any climate related engagement clear measures for the success of the engagement and clear triggers for specific action up to and including divestment or denial of debt where the investment case for a company is fundamentally undermined.

The Authority will engage with both the Border to Coast operating company and the other funds within the Partnership to ensure this approach is taken both with internally managed assets and appointed external managers. The Authority will also expect the Border to Coast operating company to apply the same approach to engagement across asset classes, accepting that fixed income assets do not carry voting rights, although the opportunity to “deny debt” is potentially more powerful and impactful than voting.

The Authority will look to consider climate change and its potential impact when reviewing its investment strategy and formulating future asset allocation. This will include modelling the impact of differing climate scenarios on both the Fund’s assets and liabilities.

The Authority expects those managing money on its behalf to actively consider environmental, social and governance factors, and in this context specifically climate change, when selecting stocks in which to invest which is likely to result in investments not being made in companies which are not actively addressing the need to move to a low carbon economy. However, in light of the significant potential financial impacts of climate change, carbon risk and stranded assets, it has made the decision not to invest in pure coal and coal sand companies, and we expect the threshold at which Border to Coast and other fund managers apply this exclusion to be reduced year on year, with a view to it reaching zero by 2030 at the latest, and we will engage with the operating company and partner funds in order to achieve this.

The Authority will encourage Border to Coast to consider how it manages carbon risk and exposure across its various portfolios, and as stated above will seek the agreement of partner funds to reduce exposure to high carbon intensity companies that fail to respond to engagement on climate change related issues and to adopt means to create portfolios structured in a way that supports the low carbon transition.

There are a limited range of low-carbon related investments in quoted markets, with more opportunities existing within the various alternative asset classes. The investment strategy which is being put in place to provide further diversification and reduce volatility of expected future returns, has resulted in a reduction in equities and a move into alternatives. This has therefore increased SYPA's exposure to assets that may be less sensitive to climate change risks, and/or support the transition to a low carbon economy.

The Authority's property allocation is mostly through direct property; and a standalone statement relating to responsible commercial property investing, details the approach taken. It takes into account current best practice regarding social and environmental considerations when managing its property portfolios and determining the selection, retention and realisation of investments. The Authority's aim is to reduce its impact on the environment and maintain a positive relationship with its customers, tenants and suppliers.

Risk Management

The Authority will look to measure and manage the risk of climate change, carbon exposure and stranded assets to the Fund. It will measure and manage climate risk across portfolios by monitoring carbon intensity (where possible) and expects Border to Coast as its principal investment manager to provide data on the carbon intensity of its listed asset portfolios on at least an annual basis, and to develop similar measures in relation to private market investments. It will take appropriate action to identify such risks by increasing internal knowledge and understanding of scenario and risk analysis tools available, and being aware of ongoing climate change policy discourse. The Authority's preferred approach is with Border to Coast to identify ways of structuring the various investment portfolios to secure carbon reduction across portfolios and ensure that they are prepared for the transition to a low carbon economy.

The Authority believes that collaboration with other like-minded investors leads to greater shareholder power to influence company change and behaviour. It will therefore, look to work in partnership with Border to Coast and other groups such as LAPFF, the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+ to ensure there is appropriate engagement with companies on climate related issues, including business sustainability and disclosure of climate risk, in line with TCFD recommendations.

Governments' climate change policies are unpredictable leading to public policy uncertainty. Investors are lobbying policymakers to accelerate the development of a realistic carbon price. Carbon pricing is vital for businesses and investors to properly incorporate climate related risk into investment decision-making. The Authority will, therefore, actively engage with policy makers through its membership of IIGCC.

Metrics and Goals

The Authority's Goal is that it's investment portfolios should be "net zero" in terms of carbon emissions by 2030. The Authority recognises that this is an ambitious goal, with a significant risk of non-achievement and is not in line with the ambitions of the wider Border to Coast Partnership. As such the Authority will need to rely on a combination of strategic asset allocation and the achievement of positive impacts from the legacy and non-pooled portfolios to support achievement of this goal.

The Authority will, where possible, report progress in line with TCFD recommendations; this Climate Change Policy has been structured around the TCFD's reporting themes. The TCFD believes that asset managers and asset owners, including public- sector pension funds, should implement its recommendations with disclosures made in annual public financial reports, and regulatory changes are beginning to be made to bring this into effect.

The Authority will measure its portfolios' exposure to carbon-intensive companies, where possible through requiring Border to Coast to provide as a minimim annual carbon data in line with the TCFD recommendations, the wider requirements arising from the Paris Aligned Asset Owner Initiative and any regulatory requirements. However, the Task Force recognises the challenges and limitations of current carbon footprinting metrics, but sees it as a move towards developing investment decision-useful, climate-related risk metrics. This information will be used to highlight specific risks and inform company and fund manager engagement.

The Authority will seek to use its influence within the wider Border to Coast Partnership to secure the agreement of appropriate goals for reducing the carbon intensity of portfolios and the identification of ways of structuring the various portfolios so that they are prepared for the transition to a low carbon economy.

It will also report on additional metrics which will include company engagement meetings, both direct and collaborative and the degree to which companies within portfolios have aligned their plans with the goals of the Paris agreement. It will request that Border to Coast integrates climate risk and opportunities into the investment decision making process for both internal and external mandates, and for the private market structures.

March 2023

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Action Plan for Delivering the Net Zero Goal

Update March 2023

Contents

Introduction

At its meeting in March 2021 the Pensions Authority agreed its first Action Plan for Delivering the Net Zero Goal and agreed to update the Action Plan annually. This second annual update reflects on the progress that has been made and identifies a revised set of actions flowing from that progress and developments in the wider environment including the evolution of regulation.

The goal which the Authority has set for itself is ambitious, but that ambition is founded on the belief that institutions such as SYPA need to show leadership in order for the required change to be delivered with the overall degree of urgency required by the position in which the world finds itself. In that context this plan is simply the starting point. The climate challenge that the Authority wishes to address is urgent and in doing so we should not allow the perfect to be the enemy of the good, we need to make progress now so that we can begin the journey to net zero as quickly as possible.

This Action Plan has been developed using the Institutional Investors' Group on Climate Change (IIGCC) Net Zero Investment Framework. This recognises that there can be no "one size fits all" route to net zero, investors like SYPA need to focus on maximising efforts that achieve decarbonisation in the real economy, rather than simply creating portfolios with no emissions. This requires a comprehensive investment strategy led approach supported by concrete targets (at portfolio and asset class level) combined with smart capital allocation and engagement and advocacy activity. Such a strategy led approach must not just deliver emissions reductions, but also increase investment in the climate solutions which we need to achieve net zero. This approach will reduce the exposure of SYPA's investment portfolios to climate risk while increasing their exposure to climate opportunity, thus providing greater long-term protection for our scheme members' savings.

All of this does, of course, need to be seen in the context of our participation as one of 11 partner funds within the Border to Coast Pensions Partnership and we will continue to work with and gain the co-operation of the other partners and the operating company in order to achieve our goal.

There remain significant gaps in both our knowledge and the data available to us and while we will need to continue to address these. However, we will need to take specific actions in parallel with this so as to make full use of the relatively short time available to us to achieve net zero. We already report in line with the requirements of the Task Force on Climate Related Financial Disclosure and each year in our Annual Report we will present our progress both in delivering this action plan and towards achieving net zero.

This plan will continue to be developed further on at least an annual basis as we better understand our current position and the progress we are making.

Defining the Goal

It is important to understand what we mean by the goal of net zero and how it will be measured.

What we are seeking to achieve is that the net level of carbon emissions from the holdings in our investment portfolio equals zero. In itself this seems simple. However, there are a number of ways of defining carbon emissions and it is important that we understand which of these we are using so that we can pull the right levers in order to achieve our goal.

The accepted standard for defining (and measuring) carbon emissions has "3 scopes".

Scope 1 emissions are direct emissions from company-owned and controlled resources. In other words, emissions released to the atmosphere as a direct result of a set of activities, at a firm level.

Scope 2 emissions are indirect emissions from the generation of purchased energy, from a utility provider. In other words, all GHG emissions released in the atmosphere, from the consumption of purchased electricity, steam, heat and cooling.

Scope 3 emissions are all indirect emissions – not included in scope 2 – that occur in the value chain of the reporting company, including both upstream and downstream emissions. In other words, emissions that are linked to the company's operations.

Companies reporting in line with the requirements of the Task Force on Climate Related Financial Disclosure Standard (TCFD) must report on Scope 1 and 2 whereas reporting on Scope 3 is voluntary and as will be clear from the definition incredibly hard to measure with the significant risk of double counting as between direct producer and indirect consumer organisations. However, the data reported by fund managers to the Authority makes no distinction as to these different types of emission, and while a restricted definition might make a 2030 goal easier this is not practical and would leave the Authority open to the accusation of avoiding the key issues in emissions reduction.

Therefore, for the purpose of delivering the Authority's Net Zero Goal the following definition will be used.

"The Authority's goal is for the net carbon emissions from the totality of its investment portfolio to be zero by 2030."

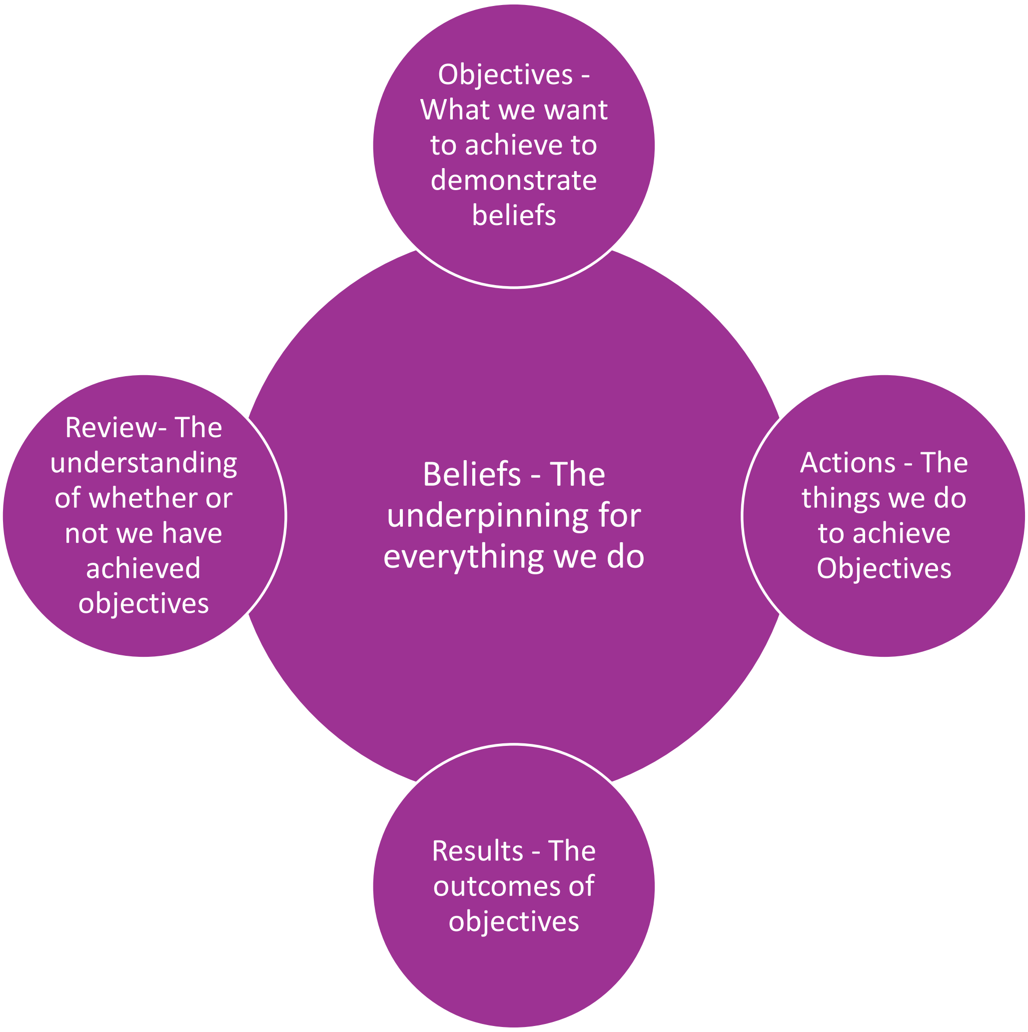
While concentrating on scope 1 and 2 emissions allows the Authority to set targets which are comprehensible and where data is likely to be available, this position will need to be kept under review as more data becomes available and the investment impacts of using specific measures becomes clear. Measurement and regulation are continually developing in this area and to a significant degree we are going to be trying to hit a moving target, particularly in the next few years when the pace of change in these areas is likely to be greatest.

In addition the Authority will separately seek to make the remainder of its operations carbon neutral over the same timescale with relevant actions included in future iterations of the corporate strategy, for example utilising renewable energy in our office, reducing the generation of waste and setting policies which promote the use of electric vehicles and/or public transport.

Governance and Strategy

Getting the governance and strategy right mean that the organisation will retain focus on specific goals and will have decision making processes which are able to receive understand and react to information on progress to specific goals as it comes through.

This is illustrated as a cycle in the graphic below



Everything we do needs to start with beliefs, they provide the framework within which we develop objectives which lead to us taking actions which lead to results which we then review to see whether we have achieved our objectives, and so the cycle goes on.

In making any decisions in relation to any of the stages of this cycle it is important to remember that the Authority is required by the LGPS Investment Regulations to ensure that it has taken proper advice. In most cases this will be provided by a combination of officers and the independent investment advisers, but in this area, there is likely to be a requirement at various points for additional specialist advice. Given the requirement to pool which is placed on LGPS funds there is also a need to ensure that Border to Coast are engaged with the Authority on this journey.

In the last 12 months we have continued to build from the foundations set out in our agreed beliefs statement continuing a dialogue with Border to Coast and the other partner funds to increase the focus on the move to Net Zero and deliver further opportunities for investment in climate positive assets.

Work has continued on the ongoing review of investment performance and on reporting progress towards Net Zero, and this will continue to be developed as data for more asset classes becomes available and the detailed requirements of new regulations become clear. This work is supported by the work undertaken by external consultants to support the review of the Investment Strategy during 2022.

The specific actions required to give effect to the structure outlined above are set out in the table below:

Ref	Action	Responsibility	By When
SG 1	Agree Investment Beliefs Reflecting the Commitment to Net Zero	Authority	Completed
SG 2	Revise Investment Strategy following 2022 Fund Valuation directly reflecting Net Zero Commitment, including further scenario and transition path analysis (to be repeated in each triennial strategy review).	Assistant Director - Investment Strategy	Completed alongside this update
SG 3	Review performance of all investments in the context of the Net Zero Commitment on a rolling basis.	Director	Ongoing
SG 4	Monitor the delivery of the Net Zero Commitment and the transition path on an annual basis	Director	Ongoing
SG 5	Create a forum to engage with Border to Coast to identify how they can assist and support the Authority on its Net Zero journey.	Director	Completed Now part of ongoing dialogue with Border to Coast

The work required to support the investment strategy review will provide a foundation for addressing the new reporting requirements. In addition we will be working with Border to Coast and their new data provider to develop the forward looking metrics that will be crucial to measuring progress towards the goal and informing future adjustments to the strategy.

Setting Targets Objectives and Reporting

Measurement and reporting are central to how we drive forward the changes that are required in order to achieve the net zero commitment. The detail of these will flow from some of the strategic work set out in the previous section and the establishment of a baseline position which enables us to understand how far we have to travel to achieve net zero.

In simple terms what we are seeking to do is establish a set of steps to reduce carbon in each element of the portfolio over a given time. How this will be achieved for individual asset classes is the subject of the next section of this plan.

This section of the framework deals with the four outer circles in the diagram on page 5, which can be described as the “plan do review” cycle.

At this stage we have some idea for around 50% of the Fund’s assets by value of the distance to travel and fund managers have set targets for a number of portfolios, although these relate to their own targets for achieving Net Zero rather than the Authority’s own more ambitious target. The key consideration here is that we are not the only investor in the products in which we are invested and while in terms of the Border to Coast internally managed funds we can seek to influence we cannot dictate. Nor are we able to simply switch into a carbon neutral fund because the pool does not offer one, and to do so would require a fundamental change in the Authority’s longstanding investment approach (either in terms of active v passive management, or in terms of internal management v much more expensive external management) which we do not believe is justified. These issues are dealt with in more detail in the next section of this document.

For other asset classes (such as Property) we are in the process of agreeing a trajectory of emissions reduction with investment managers which will be incorporated in the next round of updates to targets under the Paris Aligned Asset Owner Initiative, and we have made some significant improvements in the availability of data over the last 12 months. At the same time setting targets will continue to be difficult and on the basis of not letting the perfect be the enemy of the good we will be looking to set emissions from all portfolios on a downward trajectory as soon as practically possible.

Setting targets alone is not enough. We need to be held accountable for our progress towards those targets. We have already begun to report publicly on our progress towards the net zero goal and also on the specific steps we have taken towards that objective.

We will also need to identify a number of specific measures that will form a core part of our reporting under the forthcoming LGPS Regulations addressing the need to report in line with TCFD requirements. The measures we will adopt, subject to any change to reflect the final regulations and being able to agree a common position across the Border to Coast partnership are:

- An emissions metric
- A carbon intensity metric
- A weighted average carbon intensity metric (WACI)
- A data quality metric indicating the proportion of the portfolio covered by the relevant metrics
- An alignment metric providing a forward-looking measure

The aim will be to produce the first four of these at both asset class and whole portfolio level while the alignment metric is only meaningful at whole portfolio level.

We will also be required to provide some scenario analysis, although at this stage the detailed requirements are not clear and we will work with colleagues through the Border to Coast partnership to ensure that this analysis is consistent across the whole partnership regardless of what, if any Net Zero goal, each partner has adopted.

The targets that have been adopted while supportive of the Authority's direction of travel are in themselves not sufficient to achieve the Net Zero Goal and other tools such as adjustments to the balance of the overall asset allocation will be required to bring the Authority closer to its goal.

Ref	Action	Responsibility	By When
TR1	Following Investment Strategy Review identify interim targets leading to net zero	Director / Assistant Director - Investment Strategy	Completed but subject to ongoing revision and refinement
TR2	Work with Border to Coast and other investors in relevant products to ensure mandates and performance objectives specifically reflect the Net Zero Commitment	Assistant Director - Investment Strategy	Ongoing
TR 3	Conduct an annual review of progress towards Net Zero and make adjustments to either targets or implementation approach as necessary while continuing to meet return objectives	Assistant Director - Investment Strategy	Annually from April 2022. This update is the second such review

Asset Class Implementation

The products in which the Authority invests are all made up of very different sorts of asset which have different characteristics, therefore it is highly unlikely that one approach to implementing net zero will be applicable across such a wide range of assets ranging from farmland to private equity investments in tech start-ups, through traditional instruments such as shares and bonds.

This section of the document looks at each major asset class in turn and identifies an initial approach which reflects the need to focus on the real economy and the practical issues associated with operating within the context of pooling, where the Authority is not wholly in charge of its own destiny. All of this also needs to be set within the context of the Authority's broader beliefs about how to do investment.

Specifically the Authority believes in:

- Being an active investor – This means picking the best stocks to invest in using the skill of individual managers. However, our moderate risk appetite means that while we believe in active investment, we invest in active products that maintain broad portfolios within a particular asset class and select the best companies in particular sectors as opposed to highly active products which would select both companies and sectors, and thus generate much more concentrated portfolios.
- Being a global investor – This means that we will be exposed to investment in emerging economies such as China and India where the stage of development means that economic growth is sometimes being driven by companies in industries such as cement which are high emitters.
- Managing money internally wherever possible – While we now invest through Border to Coast for listed assets we look to the company, where possible, to provide products using its own team rather than external managers. This makes changing products more difficult as a wholesale switch away from the current range of products could significantly undermine and destabilise this important aspect of what Border to Coast offers to its partner funds, and if we wish to make changes which would impact the investment universe we need to get agreement with other investors.
- Engagement over divestment or exclusion – The Authority has long operated on the basis that it seeks to influence companies through engagement, this is part of being rooted in the real economy.

As we progress along the road to net zero (and further along the pooling journey more generally) these beliefs about how to do investment are all likely to be challenged in different ways and the Authority will need to keep them under review to ensure that they remain compatible with achieving both our return and net zero objectives. In particular in order to hasten the move of portfolios towards investment in companies with a longer term future the Authority will be seeking to influence partners to continually reduce the revenue threshold for exclusion of pure coal and coal sands companies so that it reaches zero before 2030.

The other contextual factor to be considered before looking at the approach in each asset class is the fact that the Authority (like all other LGPS Administering Authorities) is part of a pool and needs to secure the co-operation of the other partner funds within Border to Coast in order to make progress where changes are required to investment products. The Pool has now agreed its own Net Zero objective (setting a goal of 2050) and while this is not the same as the Authority's the setting of the objective requires the setting of targets and the reporting of metrics. In themselves these will support the Authority's work while the ability to alter the asset mix through the Strategic Asset Allocation and to manage the legacy portfolio (the assets not yet pooled or not to be pooled at all) provide potential levers for accelerating or reducing the pace of movement to Net Zero.

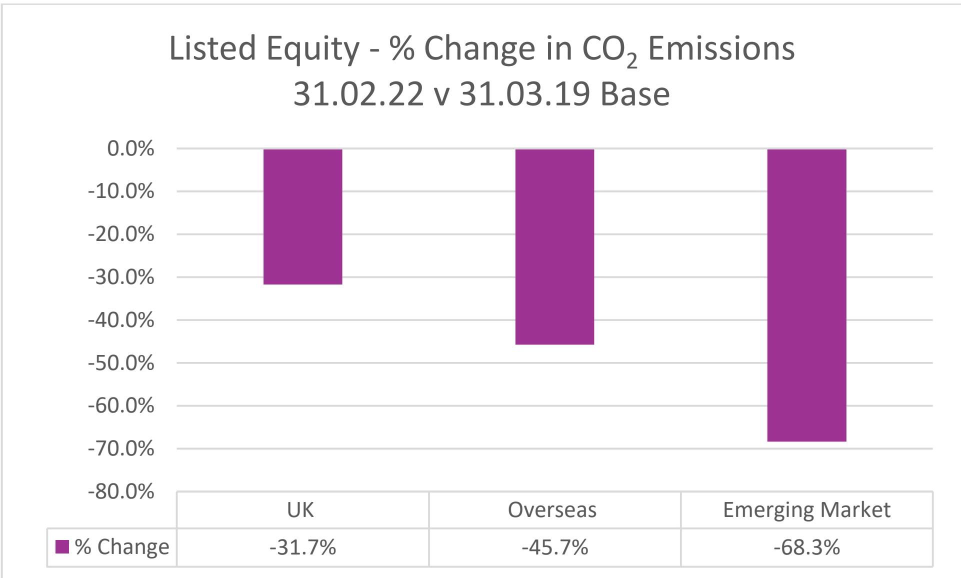
The following sections deal with each asset class in turn.

Listed Equities

The Authority's listed equity investments are managed against benchmark indices with a performance target of 1% over the benchmark and a core risk tolerance of a 3% tracking error. This latter tolerance limits the scale of "active bets" (i.e. the degree of divergence from the index) which the fund manager can take.

Border to Coast have identified a series of changes to the investment process which will make it more sensitive to the scale of climate risk posed by individual companies. These are in the process of being implemented with a target to reduce emissions from these funds by 45% - 50% by 2030 from 2020 levels.

Compared to the base year of 2019 emissions across the equity portfolios have, as shown in the graph below reduced substantially, in particular in the Emerging Markets portfolio, as a result of the restructuring of the China element of the portfolio. Some of the reduction experienced may be pandemic related and there remains a risk of some rebound in emissions as economies recover, although perhaps counteracted to some degree by the countervailing pressure for a reduction in fossil fuel use arising from the war in Ukraine.



Listed equities are the single largest asset class in which the Pension Fund is invested and in order to achieve SYPA's ultimate goal, it will be necessary to reduce the contribution to aggregate emissions from these portfolios in total by at least 50% by 2025. While the targets set by the fund manager do not reflect this maintenance of the current rate of progress would indicate that this is within the range of possible outcomes Beyond this the impact of the changes in the investment process to make it more climate aware and the weight of assets held in the different products which will be reviewed as a matter of course are likely to further influence the level of overall emissions beyond 2025.

Border to Coast as Fund Manager already operate a policy of excluding "Pure coal and coal sands" companies from the investment universe based on a threshold of more than 70% of revenues coming from these sources. The Authority will seek to influence the Partnership to further ratchet down this threshold with the aim of it being zero by 2030.

An important feature of investment in listed equities is the voting rights which are conferred on asset owners. The way in which the Authority, through Border to Coast, chooses to exercise these voting rights has the potential to accelerate progress by companies towards net zero. Border to Coast has updated and strengthened the voting guidelines on climate change for the 2023 proxy voting season. As well as voting against the reappointment of board members where companies are not making progress towards net zero as assessed by the Transition Pathway Initiative (TPI), votes against the Chair will also be cast where a company fails one or more of the first four indicators of the Climate Action 100+ Net Zero Benchmark. The Authority will review proposals for the casting of votes in relation to companies' climate transition plans and where it feels that Border to Coast policy is resulting in support for plans that do not deliver a credible move to Net Zero for a company and reserves the right to vote its portion of the shares held in a different way to the remainder of the Partnership.

The ability to exercise voting rights is supported by engagement with investee companies. Most engagement activity is undertaken by Robeco, acting for Border to Coast (the actual share owner in the pooled products). The issues associated with climate change and the achievement of Net Zero remain the single most significant focus of engagement activity. During 2021 two additional engagement themes around the Net Zero themes were added, "acceleration to the Paris Agreement", and "climate transition of the financial sector". An additional theme covering this area will also be launched during 2022, "net zero emissions", this expands on current engagements focussing on high carbon emitting companies that are lagging in their transition to net zero. Border to Coast are seeking to develop clearer tracking and reporting in this area. Successful engagement on these issues will, likely, hasten progress towards net zero, and engagement will need to remain a key tool in the armoury in order to ensure that companies in which the Authority is invested meet their commitments to reducing emissions. Climate issues continue to represent a very significant proportion of the engagement activity which we support and we report on this each quarter. The Authority will work through the Partnership to seek to define much clearer success criteria for climate engagements and clearer escalation of consequences up to and including divestment in the event of engagement not meeting those criteria.

Both the Authority and Border to Coast are also members / supporters of a number of investor bodies in the climate space such as the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+. Involvement in groups such as these can be used to assist in tracking the progress of individual companies towards Paris alignment but can also be used to assist in influencing the development of standards in relation to data and measurement for adoption by investee companies.

Fixed Income

These portfolios are handled by a mixture of internal and external managers within Border to Coast products, using a variety of performance targets against a benchmark index. The favoured investment styles within these products tend towards relatively low turnover approaches which seek the best credits to buy with little reference to the composition of the index.

Emissions data is less available within fixed income than in equity investment, although for corporate credits there is the ability to use the same underlying data for both types of investment. However, many of the credits included in these portfolios are from sovereigns or multi-lateral institutions (such as the European Investment Bank) where the calculation of emissions data is much more difficult. While it is possible to engage with corporate bond issuers in the same way as for equities this is not possible for sovereigns and multi-lateral institutions so the ability to influence behaviour is not present in the same way.

Fund managers in this space do seek to engage with corporates and there is an increasing issuance of "green bonds" both by corporates and governments. Border to Coast will be beginning to examine options for a product in this space and the Authority will be positively supporting this work as it may provide the opportunity provide funding for a more rapid transition to Net Zero, however any investment will depend on successful due diligence being undertaken.

Given Border to Coast's Net Zero commitment they will need to produce metrics and set targets for fixed income products, although at present sovereign bonds and the Multi Asset Credit Fund are excluded from their emissions targets due to data issues. The combination of products provides an opportunity for the Authority to set its own targets for the asset class as a whole once such data is available.

Data is only currently available for the Investment Grade Credit portfolio and this indicates a decline in emissions of close to 50% from inception. However, as indicated above data quality in relation to this product, in particular coverage of portfolio companies, is not as good as for the equity portfolios and this may mean that this statistic is not a representation of the on the ground position. However, it is a starting point for this portfolio and the Fund Manager has set specific targets for emissions reduction for the portfolio aiming for a c50% reduction in emissions by 2030. Based on the information available this may be overachieved, although overachievement here may compensate for slower progress on more recently launched fixed income funds.

The Authority will take the following actions in relation to fixed income investments in the coming year:

- Seek to understand and monitor the impact of changes to the investment process required by the adoption of the Net Zero target and assess their impact.
- As with equities seek to define much clearer success criteria for climate engagements and clearer escalation of consequences up to and including denial of debt in the event of engagement not meeting those criteria.
- Seek to ensure existing exclusion policies for pure coal and coal sands are applied across fixed income portfolios.
- Continue to support work to develop a "green" bond product as a positive way of financing the transition.

Alternatives

While there are three asset classes within alternatives (Private Equity, Private Debt and Infrastructure) these will, at this stage, be considered together.

The key initial issue here is the lack of data, which is being addressed, to some extent, through work already commissioned by the Authority and through the introduction of new regulatory requirements on asset owners which give leverage with fund managers to secure data. While this is helpful it is likely to be some time before data is comprehensive and it will also take some time to achieve the necessary quality of data, although starting later may allow some of the mistakes made in the early stages within other asset classes to be avoided.

Regardless of the data issue though alternatives are the area where Net Zero provides the greatest opportunity. We already have significant investments in renewables and other investments which support the transition (such as electric trains replacing more polluting diesels), and the low carbon transition is a clear investment theme within these portfolios. This will over time result in a build-up of assets with positive offsetting characteristics.

Any investment portfolio of the scale of SYPA's alternatives portfolio is likely to contain some investments which could be regarded as "carbon negative". The work commissioned on data should allow at least some of these to be identified, and it will then be necessary to consider whether any action is appropriate. By their nature alternatives cannot just be bought and sold like listed equities and secondary sales very often result in a loss of value, so it is likely to be necessary to hold such investments to maturity and acquire additional carbon positive investments to offset them.

In order to achieve diversification, it would not be unreasonable to seek to emphasise low carbon or transition supportive investments within the alternatives portfolio. To support this Border to Coast are have successfully launched a Climate Opportunities sleeve within the alternatives platform. The success of this Fund and growth of the market mean that it is likely that the planned 3 year investment period will be reduced to 2, which will to soe extent mitigate the scaling back of our original intended allocation. We will be looking as this Fund is deployer to ensure that these investments can be measured in terms of their offsetting characteristics and thus how they can be used in our net zero calculations.

The review of the Investment Strategy is likely to result in recommendations to more significantly tilt the alternative portfolio in a climate positive direction and we will be exploring with Border to Coast ways of doing this through the pooling framework recognising that this is likely to be a route that is deliverable given our limited in house resource.

Property

The property portfolio provides a number of opportunities in terms of the movement to Net Zero. Again, there is a lack of comprehensive data, and there are some challenges in undertaking alterations such as the addition of solar panels where the cost needs to be recovered through service charges, particularly in the current economic climate.

Over the last 12 months Abrdn as the Fund Manager have made significant progress in the overall management of ESG risks (including climate) related to the portfolio with a consequent improvement in the GRESB score and plans to improve it further in 2023. A number of projects to improve environmental performance have been identified, with some (including a solar installation on a very large industrial unit) completed. In addition "green clauses" are being added to all new leases. This programme of work will continue and provide a foundation on which Border to Coast will be able to build when it transitions into the proposed pooled product. The initial measurement of emissions has been conducted which shows a decline in emissions of around 10% between 2020 and 2021 although this may have been impacted by the pandemic. Data coverage has significantly improved and the workplan reflects the need to deliver further improvements.

The delivery of Project Chip by the end of March 2023 will set the agricultural portfolio on a road to be a positive asset in terms of the Authority's approach to climate. It will take a number of years to deliver the projects necessary to achieve this and in the next year we expect to see the establishment of both an understanding of the current position and of the opportunities available and associated actions.

The table below sets out the specific actions proposed in relation to each asset class.

Ref	Action	Responsibility	By When
AC1	Agree and implement changes to equity mandates following production of proposals by Border to Coast (subject to agreement by other investors).	Assistant Director - Investment Strategy	Completed
AC2	Consider whether further changes are required to the structure of equity products, including implementing further exclusions in the light of the impact of the changes made under AC1 and whether they are achievable given SYPA's current product mix and other investment beliefs.	Assistant Director - Investment Strategy	By December 2024 to contribute to the 2025 Strategy Review
AC3	Continue to seek tightening of the voting guidelines in relation to climate issues and actively review potential votes in relation to climate issues	Director	Annually as part of Border to Coast Policy Review and as necessary.
AC4	Work within the Border to Coast partnership to achieve clearer success criteria for climate related engagements with clearer escalation of consequences up to and including divestment or denial of debt in the event of engagement not meeting those criteria.	Director	Ongoing process feeding into the annual Border to Coast Policy Review
AC4	Consider the approach to Net Zero for Fixed Income Portfolios in the light of emerging data and undertake the identified actions set out in this Action Plan	Director & Assistant Director - Investment Strategy	During 2023-24
AC5	Support the further development of a "green bonds" product by Border to Coast	Director	Decision as to launch of product by end of 2023-24

AC6	**Identify through the work being carried out on data any particularly carbon negative alternative investments and consider whether any action is possible**	**Director**	**This action will now be taken as part of a deep dive into the legacy alternatives**
AC7	Engage Border to Coast in discussion over the best means to achieve a positive bias to supporting the low carbon transition within the alternatives portfolios	Assistant Director - Investment Strategy	Completed – Climate Opportunities Fund being provided in Series 2 Discussions to begin about further "tilts" as a result of Strategy Review during 2023
AC8	Work with Abdn to identify and initiate a programme of improvements to the environmental performance of the commercial property portfolio	Director	Completed property level action plans in place and being reported.
AC9	Deliver intended outcomes of Project Chip in terms of the climate opportunities within the agricultural portfolio.	Director	Ongoing from March 2023.

Targets and Direction of Travel

Based on the data we have available for the equity portfolios and the initial work carried out by Border to Coast in relation to their interim targets in order to achieve a 2030 goal we will need to achieve a trajectory of emissions reduction which:

- Reduces emissions by between 67% and 75% by 2025 compared to the 2020 baseline
- Accelerates the rate of emissions reduction significantly beyond that set out in Border to Coast's interim targets.

The current direction of travel is positive, and possibly ahead of Border to Coast's targets, and if maintained would on a straight-line basis result in achieving net zero between 2045 and 2048. Thus, it is clear that a significant increase in the rate of reduction is necessary, as well as needing to fill in the data gaps which continue to exist, particularly in the area of alternatives.

By the end of 2022 we expect that at least 2/3rds of the portfolio will be covered by regular emissions data and as part of the work to be carried out during 2022 on the revision of the investment strategy we will be considering the likely trajectory of emissions and the impact of a number of different wider world scenarios on the overall position of the Pension Fund. This will allow us to have a clear idea of the likelihood of the Fund delivering its overall objective of being able to pay pensions when due in each scenario. The review will also examine whether changes in asset allocation will have a positive or negative impact on emissions and thus on the Fund's ability to meet the Net Zero goal.

Risks

Achieving net zero by 2030 is a very ambitious goal, and consequently there may be a greater degree of risk that the goal is not achieved than if a less ambitious goal had been adopted. That does not mean that the goal is wrong, simply that the risk of not achieving it is greater, and therefore it is important that we understand the risks so that we can identify actions which can mitigate against them.

The key risks identified are:

Unintended Consequences

Changing one aspect of the way in which we invest can result in unexpected results elsewhere. Thus, for example, adopting a more climate aware benchmark could reduce oil and gas exposure but increase tobacco exposure which could be seen as undesirable for other policy reasons. Similarly, a focus on scope 1 and 2 emissions could result in an increased exposure to financial institutions, although they represent very significant different forms of investment risk within a portfolio. Similarly when Scope 3 emissions are examined Apple's emissions increase by 475x whereas Shell's only increase by 12x which might appear counter intuitive.

Given this it is important, given that the Authority will wish to continue to invest in internally managed products with a broadly similar risk appetite, that changes affecting the structure of mandates and the investment process are thoroughly researched and debated before implementation which in the context of the Pooling process will also require the agreement of other investors.

Inability to Secure Agreement of Other Investors

This is perhaps the most significant risk to SYPA being able to make changes to the way in which money is invested so that net zero can be achieved. Effectively the pooling process means that other investors can block SYPA from achieving its objectives (although equally viewed through a different lens SYPA could be seen as moving others in a direction which is not in line with their objectives). Fundamentally this is a challenge of the pooling process, perhaps magnified by SYPA's commitment to internal management which makes it more difficult simply to change managers. The only mitigation is for all involved to maintain an open dialogue. However, ultimately it may not be possible to secure agreement to changes which are necessary to allow the achievement of SYPA's climate goal. In this case the Authority will need to determine an appropriate course of action within the context of pooling which allows it to meet its financial objectives. This may require the reconsideration of key aspects of the Authority's current investment beliefs, and the weighing of the relative importance of different factors against the achievement of the climate goal. This action plan highlights the need for these fundamental conversations to take place as part of each strategy review and with partners on an ongoing basis.

Data Gaps

As indicated throughout this document this is an area that is bedevilled by gaps and inconsistencies in data. While the Authority has taken action to address this it will on occasion have to act in the absence of data and almost always with limited data. This is to accept that in the initial stage of the process it is important to build a momentum behind measures moving in the desired direction allowing the development of measures and the achievement of comprehensive data to follow.

Regulation is supporting the Authority's direction of travel in relation to data. However, this is likely to be a long road and there will be resource implications from securing and analysing data.

Transition Cost / Performance Erosion

This risk exists if the Authority decides to make changes in the products in which it is invested solely in order to achieve the net zero goal. It is unlikely that this will be the case. For example, in the case of the Emerging Market Equity allocation a reduction in carbon metrics has occurred as a result of the restructuring of the China allocation which was done in order to improve the overall management of the Fund and make achieving its performance objective more likely.

Whenever changes are made to the way in which funds are managed some form of transition cost is incurred. The nature and scale of the change is what determines the scale of the cost. The key issue for SYPA will be to minimise the number of times changes need to be made. The ability to achieve this is constrained by the Authority's success in achieving agreement to a direction of travel with other investors in relevant products and is therefore linked to the previous risk.

In terms of performance the Authority needs at all times to ensure that the construction of its investment portfolio is designed to achieve the actuarial return target. This is always based on assumptions and estimates and will always be subject to market events. Clearly the Authority would not make changes to its investment mandates which were designed specifically to erode performance and any changes need to be made in the context of the overall objective of being able to meet the Fund's liabilities when they become due, and the likelihood of success is a key element in each strategy review.

Success and Embedding of Process Changes

In order to deliver their own net zero goal Border to Coast have committed to changes in the investment process for the equity funds in which SYPA invests. These changes are intended to reduce emissions so as to achieve a 2050 target. However, it remains to be seen how these changes will interact with the overall approach to these portfolios of taking small "active bets". This risk will remain until there is evidence of the impact of the changes proposed by the Company and the Authority will need to focus on the impact of these changes as part of its overall oversight process.

Lack of Integration

The Authority's investment strategy has one overriding goal which is to ensure that the required returns are delivered to ensure pensions can be paid. Given that Climate Change is the largest systemic risk to the value of the Fund's assets (and hence the long-term achievement of return targets) it is important that delivering the Net Zero Goal is regarded as a key part of the overall investment strategy rather than something separate which is overlaid on the strategy at a later stage, otherwise either one or both of the return objective or the Net Zero Goal will be compromised. This will be addressed in the scope of work commissioned to support the review of the investment strategy following the 2022 valuation.

Conclusion

The actions set out in this Action Plan will not, in themselves, be enough to achieve the 2030 goal. However, we must start to make progress and the specific steps outlined here will begin moving us towards the Goal. Progress has been made since the goal was agreed in engaging with Border to Coast and Robeco, in analysing a specific approach by asset class, engaging with third parties such as Abrdn and planning a climate solutions strategy and in taking the first steps to implement these plans. These building blocks are essential to enable proper governance and oversight as we continue along the road to net zero

In these initial stages a stand-alone action plan like this is appropriate. However, in carrying out our next review of the investment strategy we must ensure that Net Zero becomes part of how we do investment rather than something separate which is overlaid on the strategy once it has been developed, and consequently this may be the last action plan of this sort.

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SOUTH YORKSHIRE
PENSIONS AUTHORITY

Impact Investing Principles for Pensions – Annual Statement of Recommitment

Adopting the Impact Investing Principles for Pensions requires that SYPA commit on an annual basis to:

1. seek investment advice on an impact investing approach for our pension fund;
2. review environmental, social and governance impacts across our investment portfolio; and
3. consider available impact investment strategies.

The Authority undertakes to continue to follow these principles and in the last 12 months has undertaken the following activity:

Advice on an Impact Investing approach for our Pension Fund

The Authority does not retain an investment consultant but uses independent advisers to assist it in shaping and delivering its investment strategy, although investment consultants are used for specific projects. The advisers have been instrumental in supporting the following during the year:

- Assisting in thinking on how the Authority should address the emerging requirements around the "levelling up" agenda which is looking for LGPS funds to achieve impacts in relation to the various "levelling up" missions.
- Contributing to the development of a revised strategic asset allocation and the identification of elements of the allocation intended to make a positive impact in terms of climate.

Review of environmental, social and governance impacts across our investment portfolio

In addition to the "whole portfolio" analysis of impact on people and planet developed with Minerva which was published during the year and will be updated during 2023/24 the Authority supported pilot work to develop a reporting framework for place based impact investment the results of which were included in the 2021/22 Annual Report and this exercise will be extended across more of the portfolio in future years' reports.

Consider available impact investment strategies

In relation to the element of the portfolio intentionally held to achieve an impact as well as a return the Authority has during 2022/23:

- Continued to develop out its portfolio of local development loans with a current commitment of £112m across 8 active loans with a pipeline of c£70m across 7 projects.
- Committed funds to 2 impact focussed real estate funds which will be drawn in the first part of 2023/24.
- Run a Member Working Group to develop the Authority's impact priorities and how they relate to available investment opportunities in response to the Government's announcement that LGPS funds will be required to have a plan to address the levelling up agenda.
- Agreed as part of the scheduled review of the Investment Strategy to carve out a specific allocation for local/impact investments to address the "levelling up" agenda priorities identified by the Member Working Group and to carve out specific allocations towards climate positive investments.

March 2023

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 3 2022/23

February 2023

Contents

Highlights and Recommendations

Highlights over the quarter to the end of December include:

- A reduction in the overall number of votes with the passing of peak voting season
- Continued focus in both voting and engagement on moving companies to providing clearer plans for the transition to Net Zero.
- The overall ESG performance of the listed asset portfolios has continued to be strong.
- Changes in market values and some updated data have retarded the rate of emissions reduction from the listed asset portfolios.

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 which is available on the website here.

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.
- Stakeholder Interaction – There is considerable interaction between the Authority and stakeholders around responsible investment issues which is summarised for wider accountability purposes.
- 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 saw a significant reduction in both the number of meetings and votes cast as we move past peak voting season, with the number of votes cast being around 16% of the level seen in the last quarter. Detailed reports setting out each vote are available on the Border to Coast website here.
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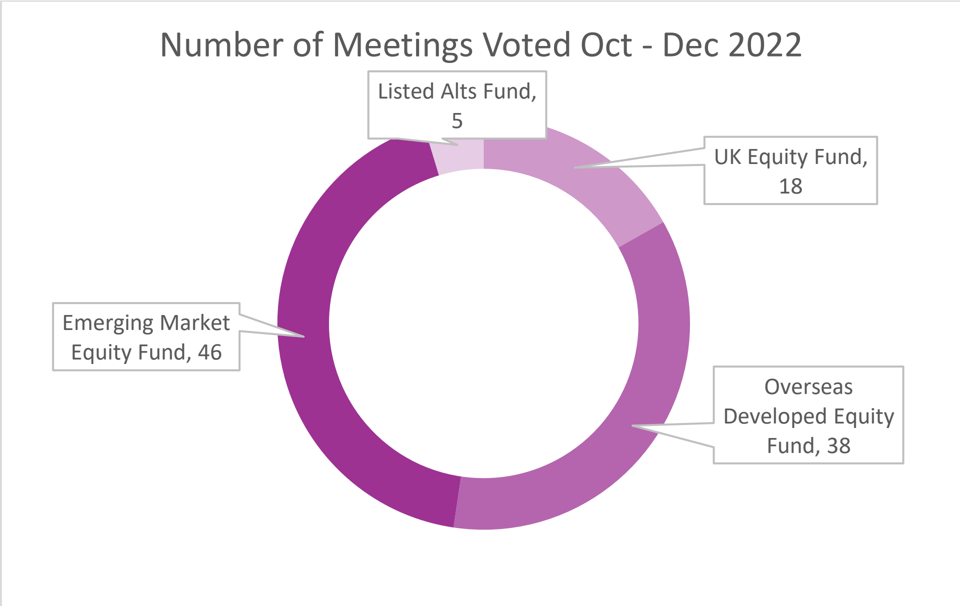
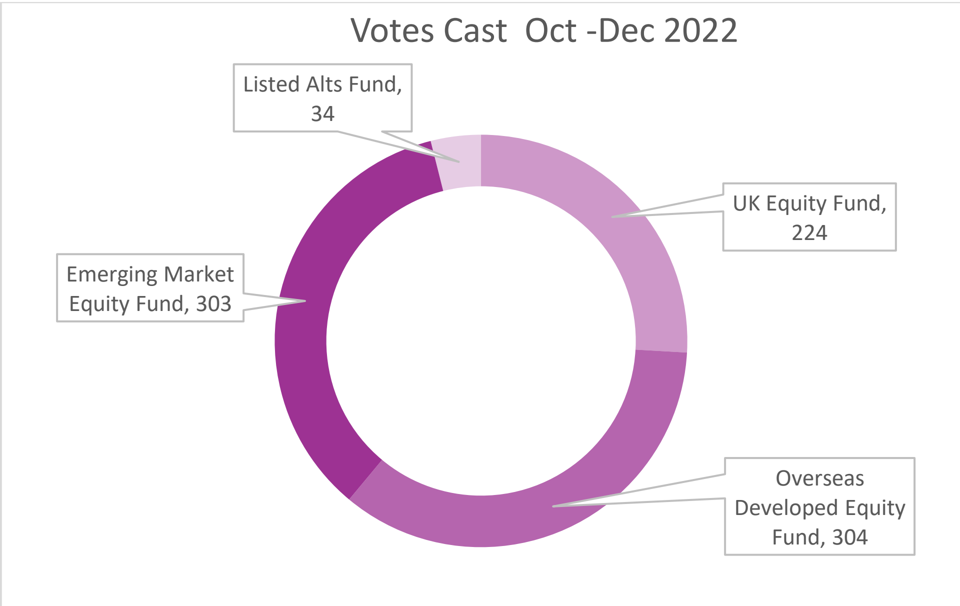




One of the emerging trends in the US voting environment highlighted by Robeco in the latest round of voting analysis is the growth of Anti-ESG shareholder proposals. Robeco's analysis addressing how these proposals are dealt with is provided in the box below:

Anti-ESG shareholder proposals

Investors and issuers were faced with a transformed US AGM landscape in 2022. The growing national debate around sustainable investing prompted a dramatic increase in the number of shareholder proposals filed by conservative activists seeking to halt companies' ESG efforts and to combat "woke capitalism". These proposals, now widely referred to as "anti-ESG", entail new challenges for investors seeking to push US companies to step up their ESG efforts.

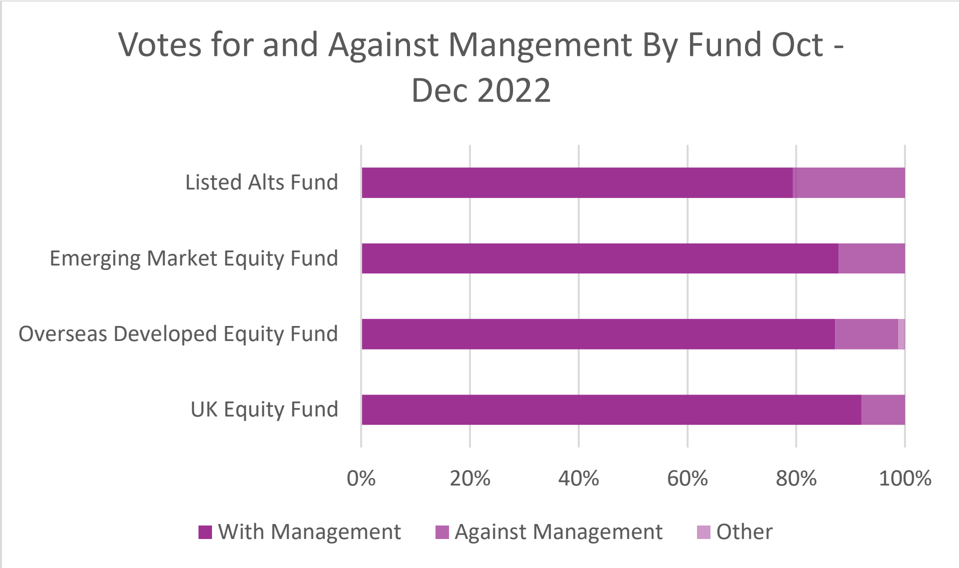
On the one hand, there are concerns that anti-ESG proponents may seek to take advantage of certain features of the US proxy machinery to block pro-ESG shareholder proposals from reaching ballots. The tactics that may be employed to achieve this are diverse yet have a common denominator – they concern shareholder proposal excludability under US rules. A shareholder proposal becomes eligible for a vote if it reaches a company's proxy statement, but companies can exclude the proposal if it fails to meet certain procedural and substantive requirements.

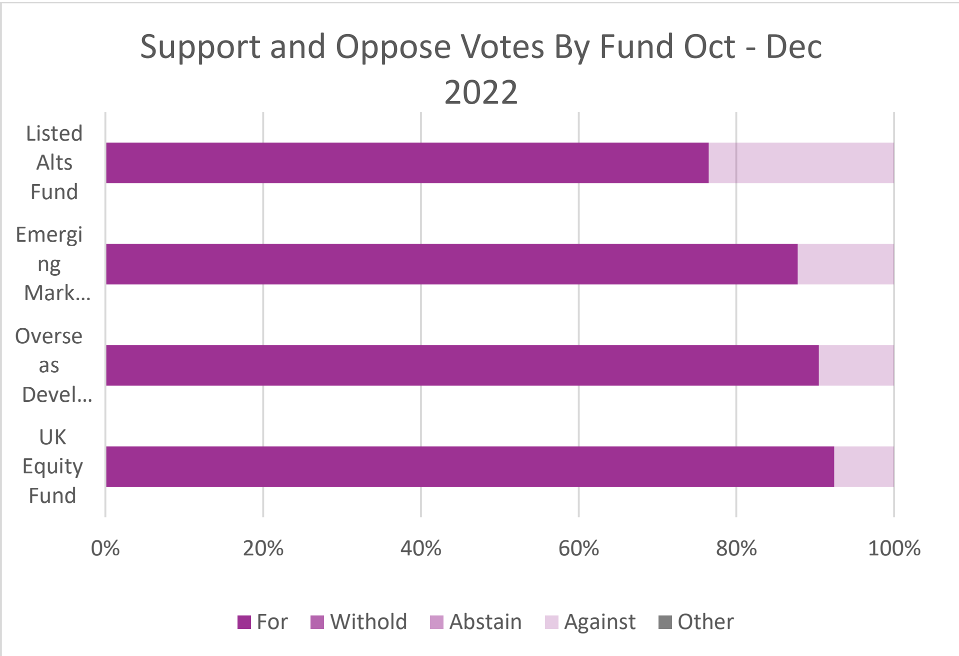
Particularly relevant in this sense is that the US Securities and Exchange Commission (SEC) allows companies to leave out substantially duplicative shareholder proposals from its proxy statement, as well as to exclude a shareholder proposal which addresses the same subject matter as a proposal that received low levels of support in any previous meeting. The 2022 proxy season has shown that anti-ESG shareholder proposals often take advantage of these provisions by duplicating the wording of pro-ESG shareholder proposals, which can lead to a number of consequences. First, if the anti-ESG shareholder proposal is submitted first, it will be the one that makes it to the ballot. Second, if an anti-ESG shareholder proposal receives less than 5% support at a meeting, as often is the case, pro-ESG proposals covering the same topic can be excluded from the proxy materials for the next three years.

In addition, anti-ESG shareholder proposals are often verbatim copies of pro-ESG shareholder proposals; they tackle the same topics ranging from lobbying to racial equity, and often appear to be fuelled by a desire to advance rather than hinder a company's ESG goals. Discerning the true objective of the proposal in many cases requires an in-depth analysis that spans well beyond the proxy materials made available by companies. This analysis covers aspects such as the proponent, the views expressed by the proponent, and any public statements made by the proponent regarding the shareholder proposal in question, thereby placing a burden on proxy analyses. Robeco assesses each shareholder proposal on a case by-case basis and supports resolutions which aim to increase transparency on material ESG issues, enhance long-term shareholder value creation, address material ESG risks and enforce appropriate conduct.

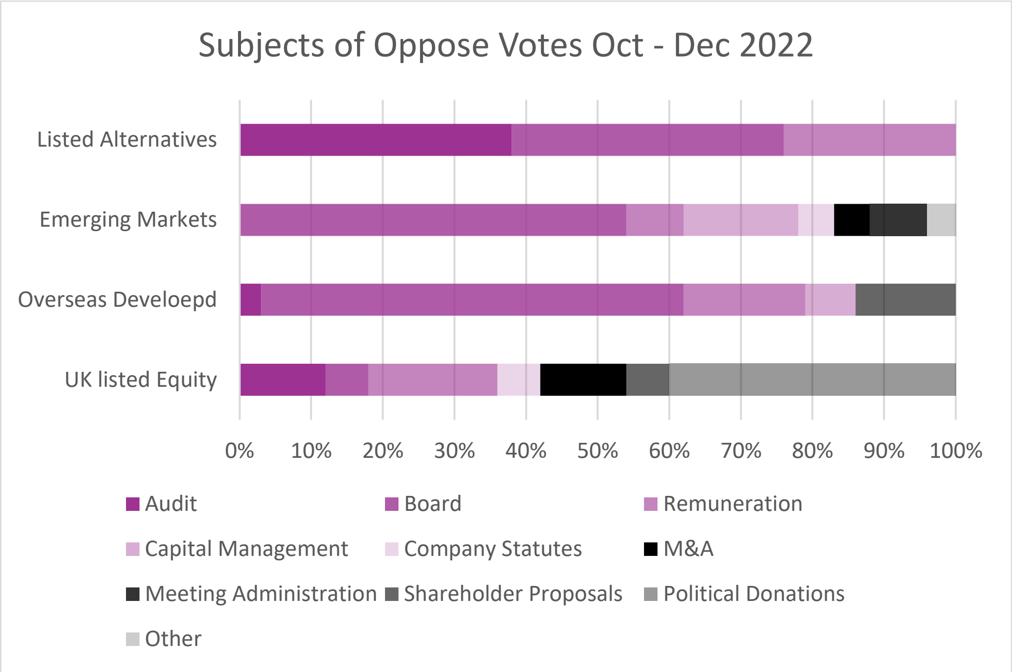
Robeco Voting Report February 2023

The pattern of support and oppose votes and votes for or against management is shown in the charts below.





This shows a continuing slight increase in the number of votes cast both against resolutions and against the line taken by company management. As has been previously reported this reflects the “ratcheting up” of the voting guidelines in a number of areas, as can be seen from the analysis below of the subjects of oppose votes.



This indicates that votes against are more evenly distributed across topics in the developed markets than in the emerging markets as listed alternatives funds. In some cases this will be because shareholder proposals are not allowed in some markets. The three largest areas where we have opposed management relate to Board composition, Auditor appointments and remuneration, and it is worth rehearsing the reasons why this is the case.

- In the case of Board composition there are a number of things which under the voting guidelines automatically trigger an oppose vote. These include insufficient independence, insufficient diversity within the Board, and insufficient progress in terms of adapting the business to the risks posed by climate change.
- Auditor appointments are automatically opposed if reappointment would result in an unduly long term which is viewed as compromising the auditor's independence.
- In the case of remuneration votes against are triggered by executive pay packages which are either excessive in absolute terms and/or where incentive packages are not aligned with shareholder interests and/or the performance targets are poorly defined or too easily achieved.

Shareholder resolutions as can be seen from the information on notable votes in these reports can cover a whole range of issues but in the last year the focus other than on climate issues has tended to be on diversity and human rights issues particularly for US companies. The voting policy does not automatically support such resolutions and analysis is undertaken of both the company's and proponents positions before votes are decided by Border to Coast on the advice of Robeco.

Notable votes in the quarter are set out in the box below.

Ferguson PLC - Ferguson distributes plumbing and heating products in North America. The Company proposed a range of changes to its articles in a single resolution as a result of moving its listing from London to New York. This included limiting the range of courts where certain issues could be litigated which we felt was not in shareholder interests. We voted against the single resolution as bundling proposals in this way is not good practice. The resolution had 93% support. We also voted against appointment of a director who is the CEO of a company with significant related party transactions with Ferguson on the grounds they were not independent. The individual received 97% support.

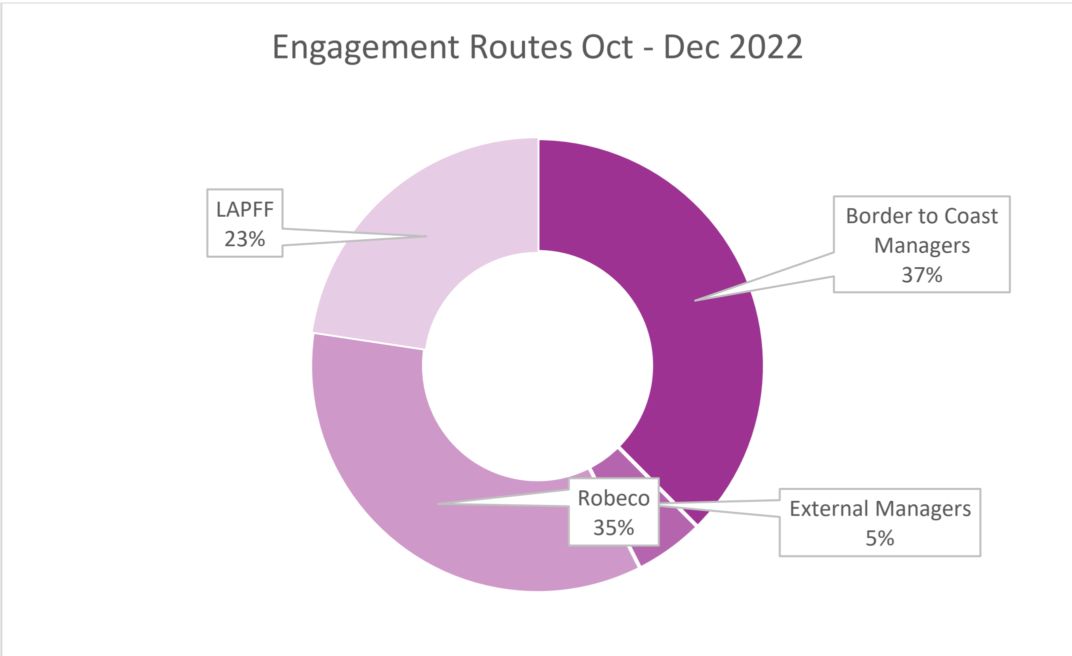
Oracle Corp - Oracle is a multinational software company. The AGM saw continued scrutiny of the company's pay practices. We once again voted against the "Say on Pay" proposal for three main reasons - modification of the 2018 stock option performance criteria, pay and performance misalignment and lack of meaningful response to shareholder dissent. We also voted agains the reappointment of all Remuneration Committee members. There was around a 33% vote against Say on Pay and between 27% and 30% against the individual reelection proposals.

National Australia Bank - NAB's AGM saw two noteworthy shareholder proposals as part of a broader campaign to hold large Austriailian banks to account for their climate commitments. The first was a constitutional change to make shareholder resolutions easier to submit which we supported because we believe this is an enhancement of shareholder rights.

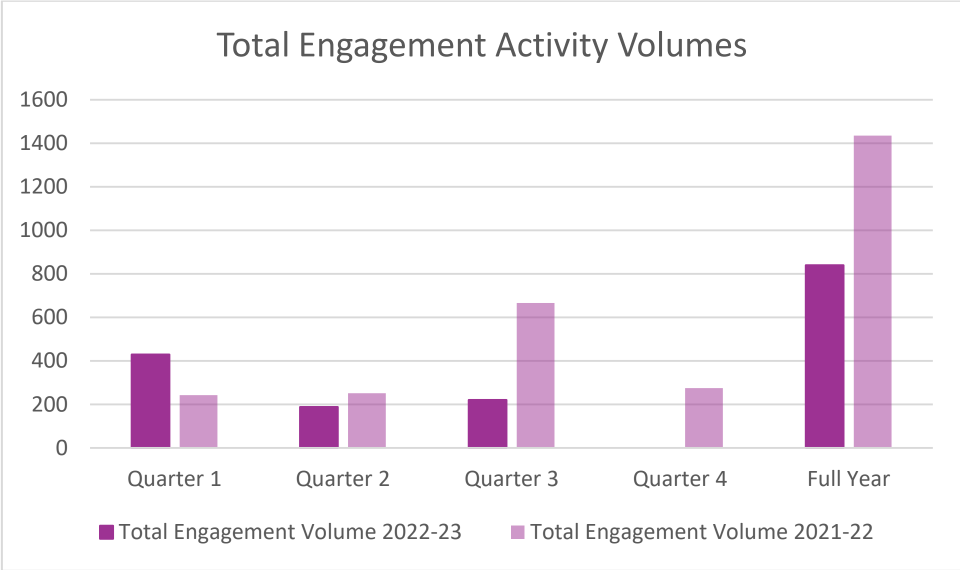
The second resolution which we also supported asked the Company to report annually on how its financing will be used for new or expanded fossil fuel projects. This is in line with our general approach of supporting disclosure and transparency in these areas.

Engagement Activity

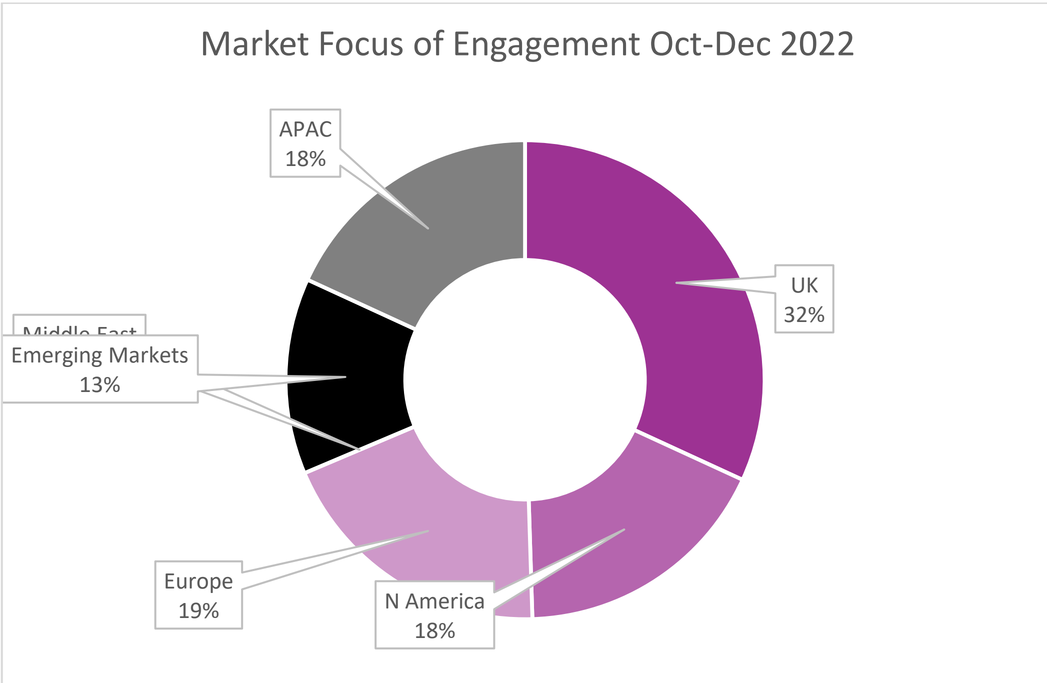
Engagement is the process by which the Authority working together with other like-minded investors seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority such as the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



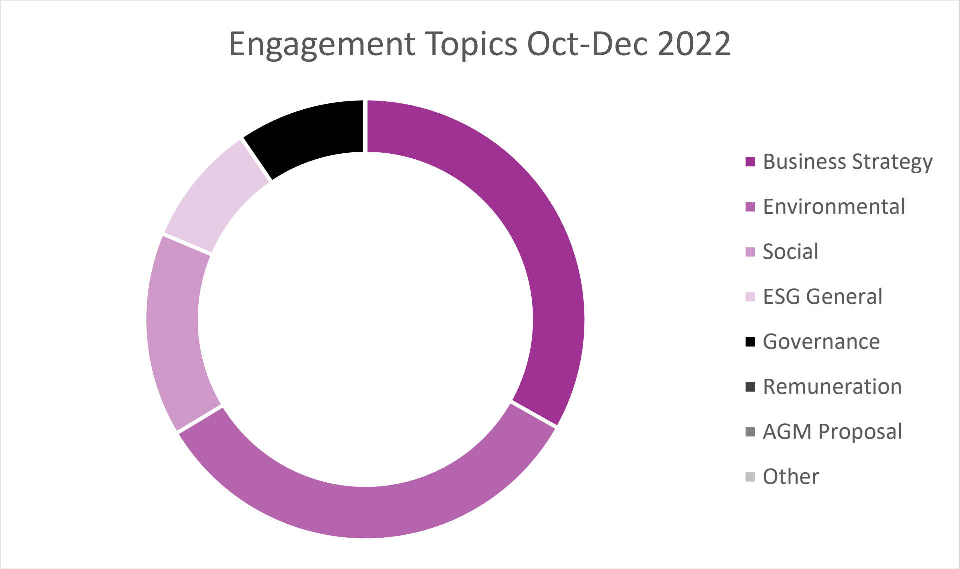
As can be seen the level of engagement activity in the quarter has reduced compared to the previous quarter with the passing of peak voting season, while there has been an increase compared to last year in the proportion of activity being carried out by Border to Coast, Robeco and the external managers with the proportion of activity being carried out by LAPFF reducing following the peak associated with CoP 26 in Glasgow.



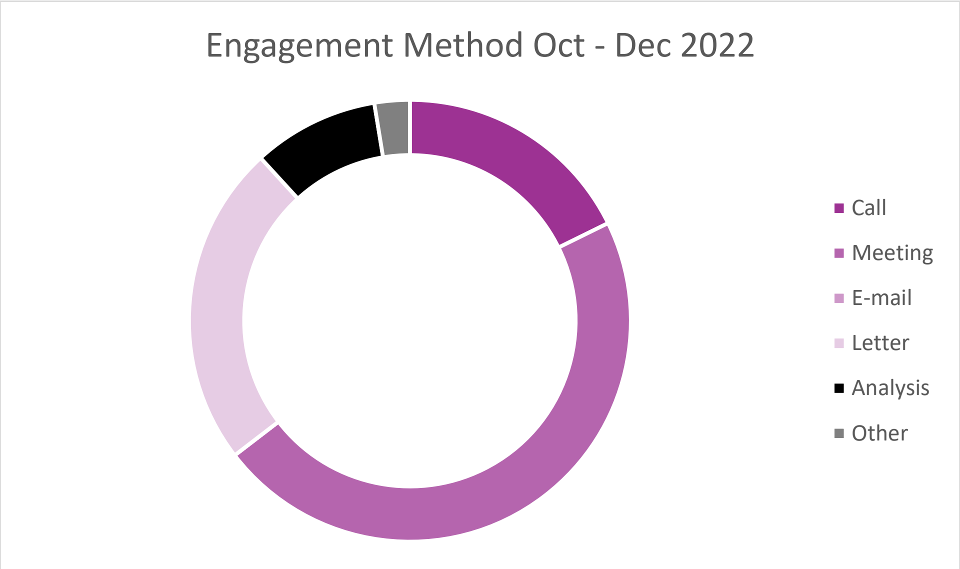
The market focus of engagement continues to normalise following last year's disproportionate focus on the UK in the lead up to CoP 26 with the distribution now better reflecting the geographic distribution of holdings, although the UK continues to be overrepresented as our home market where it is easier to engage with companies.



The range of topics covered through engagement is set out in the chart below with a continuing strong focus on environmental and climate issues although social issues continue to receive a significant degree of focus. Again, following the CoP 26 peak there is a more even spread of focus across issues although given the passing of peak voting season remuneration was not a topic of any engagement this quarter.



The method by which companies are engaged is important. Letters and e mails are much more easily ignored or likely to generate a stock response from companies whereas calls or meetings allow for genuine interaction with the company.



This shows the continuation of the positive trend of the previous quarter towards forms of engagement which allow genuine interaction with the Company.

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:

- The closing out of Robeco's engagement theme around the Social Impact of Artificial Intelligence. In 40% of the companies engaged the engagement was successfully closed. Companies are gradually aligning their practices to principles for the responsible use of AI, and increasingly doing so collaboratively in initiatives that play a decisive role in guaranteeing trustworthy AI. However, the adoption of these principles needs to be

supported by strong governance and transparency. In general results are highly correlated with a company's willingness to set up a constructive dialogue. Engagement activity will continue with a selection of ICT companies under the Sustainable Development Goals theme, where the dialogues have a strong focus on human rights and societal impact highlighting topics such as misinformation and content moderation. The focus will be on how companies contribute to SDG 10 (Reduced Inequalities) and SDG 16 (Peace, justice and strong institutions) by safeguarding human rights in the development and use of AI and promoting social economic and political inclusion.
- Robeco has been engaging with a number of computer games manufacturers since the beginning of 2021. There are two dimensions to the concerns here "in front of the screen" where there are concerns about player behaviour and harassment and where is the possibility of using available technologies within games for harassment prevention. There has been progress here with at least half of companies taking some action on age restrictions and wider regulatory activity by governments. "Behind the screen" concerns focus on issues of diversity and in particular allegations of toxic workplace cultures at some companies. Western companies have tended to take a wide ranging approach to dealing with these issues including providing additional training for staff, while at the same time remaining defensive about whether this is a systemic issue. Companies in other regions have taken a more specifically gender perspective and have been less responsive overall. There has been uniform attention to wider workplace conditions and in particular improvements to work-life balance. Across the board companies have improved their reporting with all companies engaged now producing annual ESG reports. This engagement is continuing with a particular focus on addressing the "in front of screen" risks that exist for umbrella companies in an industry which tends to operate through large numbers of subsidiaries.
- Robeco have also taken some significant steps in moving forward their engagement around bio-diversity issues and more detail is available in their quarterly report.

During the quarter Border to Coast signed up to a new collaborative engagement initiative led by the Principles of Responsible Investment (PRI). Advance is aligned with and will support delivery of the key Social engagement themes, with a particular focus on human rights. Currently the initiative is supported by 220 investors with over $30 trillion in assets under management.

Why is this important?
Human rights are an area receiving increased focus from investors as human rights have become increasingly at risk around the world. Companies are facing increasing scrutiny on how they address human rights issues, highlighting the importance of the 'S' in ESG. Human rights issues can expose companies to legal, regulatory, operational and reputational risks with the potential to impact shareholder value.

How will companies be assessed for engagement?
The target sectors and initial list of companies were identified and developed in consultation with the Initiative's Signatory Advisory Committee and Technical Advisory Group. A framework was developed for selecting sectors and companies as targets for engagement. This identified high-risk sectors, incorporating issues across supply chains, and evaluated the practicalities of engaging with these sectors. This resulted in two priority sectors: the Metals and Mining sector, and the Renewables sector.

When considering potential companies, four criteria were assessed: performance on human rights, ownership structure, regional diversity, and the systemic importance. The first phase of the initiative will be with 40 target companies in the Metals and Mining and Renewables sectors. Border to Coast hold 19 of the target companies.

What are the objectives?
The overall objective of the initiative is to 'advance human rights and positive outcomes for people through investor stewardship'. The following three expectations will be set for target companies:

• Fully implement the United Nations Guiding Principles on Business and Human Rights (UNGP) – the guardrail of corporate conduct on human rights.
• Align their political engagement with their responsibility to respect human rights.
• Deepen progress on the most severe human rights issues in their operations and across their value chains.

Annual progress reports will be published by the PRI to provide investors and other stakeholders with a regular update on the progress of the initiative against its stated objectives. An assessment framework will be published during 2023 which will be used to measure the progress of the target companies against the objectives.

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

- LAPFF has continued to engage with a number of mining companies about the way in which they engage with their workforces and local communities. While there has been some progress with a number of companies and leading board members do seem to be more receptive to engagement on these issues fundamental changes which go to making change in the underlying issues identified over many years does not yet seem to have been achieved.
- Engagement with Chipotle around water stewardship which has achieved some success with the Company undertaking an assessment of the materiality of its risks in relation to water supply and quality in relation to ingredients, the supply chain and its restaurants, which have provided a better understanding of the water related risks facing the business. Engagement will continue around the next phases of this work which will develop context based targets related to areas of the operation under high water stress. This activity is directly related to one of the Authority's priority Sustainable Development Goals.
- Engagement with electric vehicle manufacturers to gain a better understanding of how they are responsibly sourcing the minerals required for battery production. Engagement with Renault, Mercedes and General Motors indicated awareness of the issues and risks involved the development of risk assessments and audit processes as well as greater dialogue with suppliers. This work will continue as this issue is a significant element of the Just Transition to a low carbon economy.
- LAPFF has continued to work on collaborative engagement initiatives including Climate Action 100+ where it is the lead engager for a number of companies; Paris aligned accounts where a process of engagement with the Audit Committee chairs of a number of large companies which might be particularly affected by the potential impairments which would result from the revaluation of carbon related assets in a 1.5ºC scenario. LAPFF has also led one engagement for the Investor Alliance for Human Rights focussed on the issue of Uyghur forced labour in supply chains.

LAPFF has also continued responding to wider developments for example proposals to amend the Climate Action 100+ benchmark and examination by the Government of social risks and opportunities facing occupational pension schemes.

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 Authority members in the on-line reading room, but this summary provides a high-level indication of the position.

Overseas Developed

- Weighted ESG Score 7.3
- 47.1% of portfolio ESG leaders v 46.3% in the benchmark.
- 1.0% of portfolio ESG laggards v 1.8% in the banchmark.
- 4.6% of portfolio not covered all of which are investment trusts etc higher than benchmark
- Worst scoring companies 0.8% of portfolio
- Emissions below benchmark on all metrics.
- Weight of fossil fuel holdings greater than benchmark
- All 5 top emitters rated on the Transition Pathway with 2 scoring 4 and 4 of 5 engaged through Climate Action 100+

United Kingdom

- Weighted ESG Score 7.9
- 72.3% of portfolio ESG leaders v 70.3% in the benchmark
- 0% of portfolio ESG laggards
- 6.9% of portfolio not covered mainly investment trusts marginally less than benchmark
- Worst scoring companies 7.1% of portfolio but all Average companies
- Emissions belpw benchmark on 2 of 3 measures
- 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 5.6
- 22% of portfolio ESG leaders v 17.6% in the benchmark
- 15.8% of portfolio ESG laggards v 15.2% in the benchmark
- 4.9% of portfolio not covered largely investment trusts etc
- Worst scoring companies 5.6% of portfolio.
- Emissions materially below benchmark on all metrics
- Greater weight of fossil fuel holdings than in benchmark.
- 3of the top 5 emitters engaged with the Transition Pathway with one scoring at levels 2 nd 3

In general, this shows a broadly positive picture, with all funds continuing to score better than the benchmark overall. There were however a number of movements at more detailed level which are of note.

Within the Overseas Developed Fund Meta Platforms (Facebook) was downgraded to CCC. The Fund has an underweight position in this stock due to its reliance for 99% of group income on digital advertising which is likely to be hit in a slowing economy as well as being challenges by Apple's tightened privacy settings. The Company's ESG track record and in particular its poor ranking in governance, privacy and data security leave it exposed to drawing the attention of increasingly hawkish regulators. The immediate reasoning for MSCI's downgrade to its lowest ESG rating is that recently announced job cuts will weigh heavily on staff morale, which has merit from a human capital standpoint. Near term, however, Meta shares have rallied strongly on the back of the cost saving announcements as investors take reassurance from the Company's willingness to act to mitigate a weakening revenue position.

Within the UK fund there were several stock upgrades in the quarter with Unilever and Derwent London both moving to AAA. Haleon which is a new position as a result of the Company being spun out of GSK is the lowest rated company held in the Fund at BB which is still within the average category. The company is the former consumer products division of GSK with a number of key brands like Aquafresh and Sensodyne. MSCI recognises that the Company leads its peers on corporate governance but sees a range of opportunities to improve the carbon footprint through raw material sourcing and lower use of single use packaging. Product Safety and Quality is scored below peers reflecting indemnities provided at the time of separation from GSK (the scope of which are disputed by Haleon). The risk in this area appears to be fully reflected in the valuation of the stock, however a recent US court ruling dismissing claims in one case would appear to reduce any potential financial liability for either GSK or Haleon.

Within the Emerging Markets Fund five companies (Vale, Formosa Plastics, Sun Pharmaceutical Group, Zijin Mining Group and Will Semi Conductor were upgraded from CCC.

In addition to the above a pilot ESG report for the Listed Alternatives Fund has been made available to officers this quarter and will be available publicly from Quarter 4. This report has been piloted, among other reasons, because it is less possible for this product to rely on MSCI data for the reporting of carbon emissions and therefore other methodologies have had to be developed.

The carbon metrics are addressed later in this report.

Investment Grade Credit Portfolio

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 report are set out below:

Weighted ESG score 7.2 which is less than benchmark of 7.5	40.7% of portfolio ESG leaders compared to 56.7% in the benchmark	0.4% of portfolio ESG laggards compared to 0.9% In the benchmark
23.8% of portfolio not covered compared to 9.1% in the benchmark	Lowest rated issuers represent 2.4% of the portfolio	Emissions below benchmark on all three metrics.
Materially below benchmark weight of companies with fossil fuel reserves.	2of top 5 emitters being engaged by Climate Action 100+ and both rated 4 on the Transition Pathway	

The ESG score was stable over the quarter remaining below the benchmark driven primarily by an overweight position in UK government bonds (rated A) against an underweight position in European Investment Bank bonds (rated AAA). Despite this the Fund has an overall rating of AAA.

Beneath this stability, however, there has been significant change largely driven by an increase in the coverage of issuers by MSCI which is significantly improving the data available for assessing the ESG score, although coverage continues to be far less than for the equity portfolios.

No one holding dominates emissions within the portfolio.

Commercial Property Portfolio

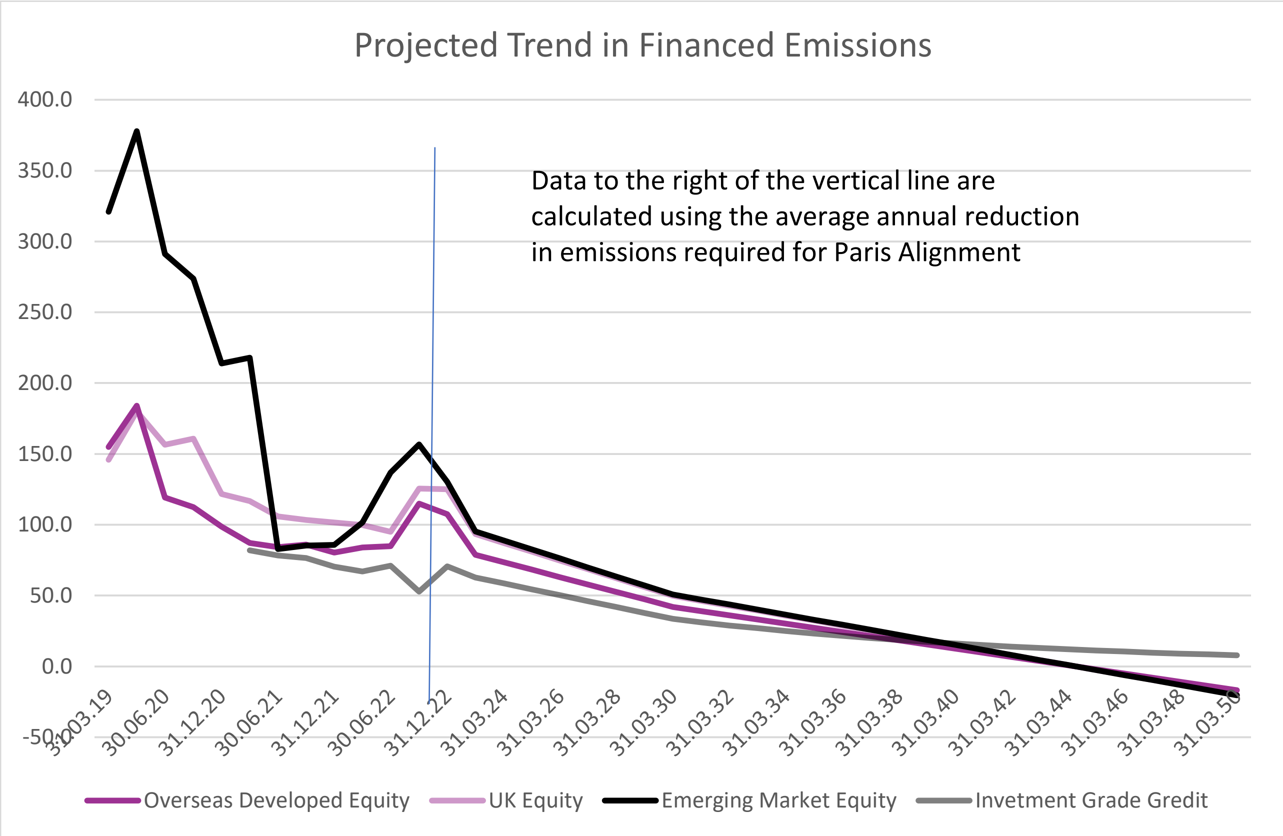
As reported in the last quarter the overall ESG performance of the commercial property portfolio as measured by the GRESB (Global Real Estate Sustainability Benchmark) has improved over the last year with the portfolio now achieving a 3 star score with an increase in the percentage score from 66% to 74%. In comparative terms the portfolio's ranking has moved to 22 out of 80 from 54 of 79, reflecting the increased effort being paid to these issues by abrdn.

In terms of the more routinely measured metrics movements in the overall rental values of the portfolio have marginally reduced the proportion of the portfolio with EPC ratings A-C by 0.2% to 78.4%.

Asset disposals and the concentration on retaining the best performing assets in both financial and sustainability terms means that the proportion of the portfolio AUM with sustainability certification of either Very Good or Excellent has now increased from 10% to 37%. As previously reported given the costs of in use certification this measure is only likely to be increased as new acquisitions take place, although there may be some merit in seeking to get Border to Coast to get certification of all properties as part of the creation of their UK fund.

Progress to Net Zero

This section of the report considers progress towards Net Zero using the emissions data provided on a quarterly basis by Border to Coast. The graph below shows the trend for what is now termed financed emissions (i.e. absolute carbon emissions) which is the main indicator for which targets have to be set. This covers the four portfolios for which emissions data are available.



This quarter has seen a significant amount of updating of data as well as a very significant increase in coverage for the Investment Grade Credit Fund. The updated data seems to reflect (particularly in the Emerging Market Fund) some continuing increase in economic activity following the pandemic which in terms of the metric interacts with market values which continue to be subdued.

Looking at each of the Funds in turn. Within the Overseas Developed Fund emissions increased slightly due to small increases in the weight of holdings in RWE, Holcim and ArcelorMittal. These are routine investment movements reflecting the Fund manager's belief in these companies as a source of return with the credibility of their plans for decarbonisation forming part of this judgement.

Within the UK Fund all metrics remained level compared to the previous quarter.

In the Emerging Market Fund all three metrics are significantly below the benchmark and there was some positive impact in the quarter on financed emissions and weighted average carbon intensity from exiting positions in China Resources Power Holdings and Anhui Conch Cement, the latter having previously been a major contributor to portfolio emissions. These exits were routine investments movements driven by assessment of the companies potential to contribute to future returns.

The Investment Grade Credit portfolio has as mentioned previously seen a significant improvement in data availability with the overall position being below the benchmark on all metrics and with no one holding dominating portfolio emissions. The largest contributors to emissions include BP, Equinor and Centrica and this supports the revised position proposed in the Authority's annual policy review of using debt denial as a means of encouraging companies to actively decarbonise their operations through the use of science based targets.

Each quarter Border to Coast's reporting on carbon emissions features particular stocks and their plans for decarbonisation. In order to increase the level of transparency on the engagement undertaken with companies and the assessment of their decarbonisation plans in future one of these case studies will be included in this report each quarter.

Air Liquide

French gas supplier, Air Liquide, announced its new strategic plan for 2025 earlier this year named ADVANCE, which sets out its carbon strategy. The 2025 target to start reducing its absolute CO_2 emissions will be followed by a goal of achieving a 33% reduction in its Scope 1 and Scope 2 CO_2 emissions by 2035, using 2020 as its comparative starting point. Air Liquide will be looking to be carbon neutral by 2050 aligning the Group with international efforts to reduce global warming, as outlined in the Paris Agreement. To decarbonise its assets, Air Liquide will leverage on capturing CO_2, accelerating low-carbon hydrogen production through electrolysis or by using renewable feedstock such as biomethane. With regards to indirect emissions, Air Liquide will focus on increasing energy efficiency and low carbon electricity consumption. Air Liquide will also deploy a broad range of low-carbon solutions for its clients to help them decrease their CO_2 footprint.

Air Liquide sees business opportunities in the emerging hydrogen sector linked to reducing carbon emissions from the industrial sector, heavyduty trucking, and elsewhere. The Company has said it will invest approximately 8 billion euros in the hydrogen supply chain as part of its carbon-neutrality goals and aim to accelerate its hydrogen developments to "at least triple" its annual revenue from hydrogen activities to more than 6 billion euros by 2035. Air Liquide will also develop competitive CO_2 abatement solutions, leveraging its ongoing carbon capture and storage initiatives in Northern Europe and its proprietary technology Cryocap which is able to capture up to 95% of CO_2 emissions from industrial facilities. Finally, management has stated that by 2030, Air Liquide aims at bringing its total electrolysis capacity to 3 GW.

As has been made clear previously the forecast reduction in emissions shown is dependant upon Border to Coast delivering the targets set out in their own Net Zero Strategy which depend on changes within the investment process as well as on the actions of individual companies. Officers continue to engage with Border to Coast to further understand both the nature of the changes being made to the investment process and their likely impact. In addition the review of the Authority's own responsible investment policies elsewhere on the agenda for this meeting look for a further ratcheting up of pressure on companies to adapt their behaviour.

Beyond this the investment strategy review which is elsewhere on the agenda will result in changes to the mix of assets that reduce the level of emissions from the portfolio but this process is at too early a stage to determine the scale of any reduction. However, as has previously been reported there remains a very strong probability that the Net Zero Goal will be missed although there is a possibility should all portfolios achieve the reductions targeted by fund managers that a date earlier than 2050 could be achieved.

It should also be borne in mind that while there is, rightly, a significant focus on emissions there is no credit in the calculations for the emissions avoided by the significant investment by the Authority in renewable energy and other climate solutions and this is something that we will look to begin reporting on in future.

Stakeholder Interaction

Over the quarter there has been a range of stakeholder interaction, although at a lower level than in the previous quarter. The interaction covered two areas, climate and the issues of companies operating in the Palestinian territories. In the second case significant information is required from Border to Coast and a holding reply has been sent.

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's most recent business meeting considered a draft workplan for the coming year which includes a focus on the following areas, each of which covers a range of specific engagement themes:

- Climate and Strategic Resilience, Environmental Protection and a Fair and Just Transition.
- Human Rights and Employment Practices
- Promoting Good Governance
- Reliable Accounts, Capital Market Regulatory Reform

The priorities within these areas are broadly supportive of the areas which the Authority wishes to prioritise for engagement.

Beyond this the Forum considered an update on work in relation to companies operating in the Palestinian Territories and investment risks in the Brazilian mining sector.

The Forum is operating in line with its budget and membership now stands at 86 Funds and 6 pools (Brunel having withdrawn).

As previously reported the Authority was shortlisted for two Pensions for Purpose awards. While unfortunately we were not successful we were highly commended in both categories, for adoption of the impact investment principles and place based impact investing. Items elsewhere on the agenda update the position on both these areas.

A Just Transition in Emerging Markets

Border to Coast is a founding member of the Emerging Markets Just Transition Investor Initiative which has published draft guidance to support investment decision making and future allocations to emerging markets. The initiative is supported by 12 large UK investors including a number of local government pools with £400bn of assets under management.

Collectively the Group is exploring how it can have a greater impact and help drive real world change by understanding the opportunities and mechanisms available to direct investments that support the low carbon transition whilst supporting economic growth in developing regions.

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.

UN Biodiversity Conference (CoP15)

COP15 took place in Montreal in December, with the primary aim of global governments agreeing to a new set of goals to protect biodiversity and restore ecosystems.

The conference ended with governments reaching a non-binding agreement on the Kunming-Montreal Global Biodiversity Framework (GBF) with the aim of addressing biodiversity loss, restoring ecosystems, and protecting indigenous rights. It consists of four overarching goals, including:

- Reducing the rate of species extinction by tenfold by 2050.
- Sustainable use and management of biodiversity to ensure that nature's contributions to people are valued, maintained and enhanced.
- Fair sharing of the benefits from the utilisation of genetic resources.
- Adequate means of implementing the GBF are accessible to all Parties, particularly developing nations.

The Framework includes targets to conserve 30% of land and oceans and restore 30% of degraded ecosystems by 2030. Although not perfect, the Framework is seen as a powerful signal to the finance sector to facilitate greater investment into nature protection and has been welcomed by investors.

COP15 also saw investors announce a new global engagement initiative focused on nature-related risks – Nature Action 100.

Responsible Investment Reporting Requirements

The framework around investing responsibly is becoming more formal. This is a move the Authority and Border to Coast broadly support, and will help drive more consistent climate reporting, and manage the risks of 'greenwashing'.

Late last year the Government consulted on LGPS reporting on climate change risks. Working with Partner Funds, Border to Coast submitted a response which welcomed the direction of travel alongside highlighting the risks. For example, the potential amalgamation of data produced using different methodologies.

Border to Coast have also responded to the Financial Conduct Authority's consultation on Sustainability Disclosure Requirements (SDR) and investment labels. In their response, Border to Coast expressed support for efforts to tackle 'greenwashing', while also highlighting potential unintended consequences from the proposed new regulations.

Note some data within this report is provided by Border to Coast using data provided by MSCI to which the following applies.
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SOUTH YORKSHIRE PENSIONS AUTHORITY

Agenda Item

Subject	**Funding Strategy Statement**	**Status**	For Publication
Report to	Authority	**Date**	16th March 2023
Report of	Director		
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 secure approval of the Funding Strategy Statement which has been updated following the 2022 valuation.

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2 Recommendations

2.1 Members are recommended to:

a. Approve the revised Funding Strategy Statement at Appendix A.

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3 Link to Corporate Objectives

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

Listening to our stakeholders

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

Scheme Funding

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

Effective and Transparent Governance

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

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report relate to the identified Corporate Risks concerned with employer risk and funding.

5 Background and Options

5.1 The Funding Strategy Statement (FSS) is a statutory document which sets out the Authority's policies with regard to a range of issues concerned with achieving and maintaining full funding of the scheme and about the way in which a range of key issues concerning employers which might affect the Fund's liabilities should be dealt with. The regulations require an LGPS administering authority to produce a statement setting out the processes it will use to:

- establish a clear and transparent fund-specific strategy identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain as nearly constant employer contribution rates as possible
- ensure the fund meets its solvency and long-term cost efficiency objectives
- take a prudent longer-term view of funding those liabilities.

5.2 The FSS is routinely reviewed at each valuation and more frequently if there are changes in regulations. Given the technical nature of the FSS its production and review involve close liaison with the actuary. The most recent review, working with a new Actuary, has also taken the opportunity to restructure what had become an unwieldy and difficult document into a simpler core document which summarises, and signposts key policies set out in appendices. While the language used remains, of necessity, somewhat technical it has been simplified and the questions which policies seek to address made clearer. This structuring of the document will also make it easier to consult on future policy changes.

5.3 Any strategy must start from the point of what it is seeking to achieve. In the case of the FSS this is to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

5.4 The LGPS regulations require that employers are consulted on changes to the FSS. For this review this has taken place in two stages

- An informal consultation over the summer of 2022 which was principally concerned with the introduction of "pass through" arrangements in relation to contractors.
- A formal consultation which closed in late January on the full revised suite of FSS documents and policies.

5.5 The informal consultation over last summer generated 6 responses (three from local authorities and 3 from other employers), although it is fair to say that some of these responses were actually seeking clarification on specific points rather than supporting or opposing specific policy points.

5.6 The formal consultation elicited 2 responses (one from a local authority and one from an F/HE institution). Again, none of the responses indicated significant opposition to the proposed policies set out in the draft FSS. While this scale of response to both stages of the consultation process might be regarded as disappointing it is not untypical in exercises of this sort.

5.7 Beyond the issue of "pass through" which is designed to improve the management of the risk around contractors' participation in the Fund, particularly the increasing number of small contractors working for schools and academies, the most significant change is in the presentation of the way in which exit payments are calculated. These will move to a probability of success basis in line with both the valuation and the strategic asset allocation. Moving away from a gilts basis means that the estimation of any exit debt (or credit) will be based on the actual investment strategy being run by the Fund rather than an artificial construct. While this might not materially change the scale of any exit debt (or credit) it will be far easier for employers to understand.

5.8 Given that there is no fundamental opposition to the proposed FSS members are asked to approve its adoption with immediate effect.

6 Implications

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

Financial	None directly, although the FSS represents the framework through which risks to the overall funding level are managed.
Human Resources	None
ICT	None
Legal	Production of the FSS and consultation on changes to it are requirements of the LGPS regulations and this report demonstrates compliance with the regulations.
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**

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South Yorkshire Pension Fund
Funding Strategy Statement

Effective date	17th March 2023
Date approved	16th March 2023
Next review	March 2026

Contents

1 Introduction

This document sets out the funding strategy statement (FSS) for South Yorkshire Pension Fund.

The South Yorkshire Pension Fund is administered by the South Yorkshire Pensions Authority (the Authority), known as the administering authority. The Authority worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 17th March 2023.

There's a regulatory requirement for the Authority to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact support@sypa.org.uk

1.1 What is the South Yorkshire Pension Fund?

The South Yorkshire Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies
Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers
Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies
Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy here.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due - those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the South Yorkshire Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution
- The primary rate also includes an allowance for the **fund's expenses.**

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The fund permits the prepayment of employer contributions in specific circumstances. The fund's policy on prepayments is detailed in Appendix K.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	**Local authorities, police, fire**	**Colleges & universities**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target*	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success	70%	70%	70%	70%	70%	70%
Maximum time horizon	16 years	16 years	16 years	16 years (guarantee) 11 years (no guarantee)	As per for open employers (or average future working lifetime, if less)	16 years (limited to remaining lifetime of the contract)
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	% of pay or monetary amount. Negative secondary adjustments are expressed as a % of pay.					

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Local authorities, police, fire	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
Stabilised contribution rate?	Yes	Yes	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Reduce contributions where appropriate, but total contributions will generally not be reduced relative to the current total rate in payment.	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority		
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Phasing of increases to secondary contribution rates may be permitted.	Phasing of increases to secondary contribution rates may be permitted.		None

** Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority*
*** See Appendix D for further information on funding targets.*

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy.

Table 1: current stabilisation approach

Type of employer	Councils	Mayoral Combined Authority	Police and Fire	HE / FE institutions
Maximum contribution increase per year	+0.5% of pay	+1.0% of pay	+1.5% of pay	+2.0% of pay
Maximum contribution decrease per year	-0.5% of pay	-1.0% of pay	-1.5% of pay	-2.0% of pay

The criteria outlined in the table above are expected to apply until at least 31 March 2026, at which point a long-term stabilisation mechanism of ±0.5% per annum is expected to apply.

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is available in Appendix H. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 What is pooling?

The administering authority operates funding pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In this type of pooling arrangement, employers do not target full funding at exit. While the fund receives the contributions required, the risk that employers will be entitled to a surplus payment on exit increases.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.6 What are the current contribution pools?

The following pooling arrangements exist in the Fund:

- **Academies** – Multi Academy Trusts (MATs) are groups of Academies managed and operated by one proprietor. The Fund's default position is that the combined funding position and average contribution requirements will apply (unless the MAT requests separate contribution rates). Notwithstanding this, the Fund will continue to track the constituent academies separately on an approximate basis.
- **Schools** – generally pool with their funding council, although there may be exceptions for specialist or independent schools.
- **Smaller TABs** – may be pooled with the letting employer (for example as part of a pass-through arrangement).

2.7 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund permits the prepayment of employer contributions in specific circumstances. Further details are set out in the fund's prepayment policy detailed in Appendix K.

2.8 Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs (aside from ill-health retirement costs which are already insured for eligible employers) being insured with a third party or internally within the Fund. More detail on how the Fund currently insures ill health costs for eligible employers is set out in Appendix L.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers are required to pay additional contributions called strain payments.

Employers are required to make strain payments as an immediate single lump sum.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment.

The treatment of any ill-health retirement strain cost emerging will vary depending on the type of employer:

- For those employers who participate in the ill-health insurance captive, any ill-health retirement strain cost emerging will be met by a contribution from the captive fund as part of the subsequent actuarial valuation (or termination assessment if sooner). No additional contributions will be due immediately from the employer although an adjustment to the "premium" payable may emerge following the subsequent actuarial valuation, depending on the overall experience of the captive fund.
- For those employers who don't participate in the ill-health captive, the primary rate payable includes an allowance for ill-health retirement costs. Any ill-health retirement strain costs emerging will form part of the contribution rate assessment for the employer at the subsequent actuarial valuation (or termination assessment if sooner). No additional contributions will be due immediately from the employer

The administering authority's approach to help manage ill-health early retirement costs was put in place on 1 October 2014 and this is reviewed at each formal valuation.

The Fund's policy of managing ill health retirement risk is detailed in Appendix L.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates. Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are included in the fund's admissions policy in Appendix E.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the school's share of the historic local authority deficit prior to its conversion. This deficit is calculated as the capitalised secondary contributions (over the time horizon) the school would have made to the Fund had it not converted to academy status, subject to a minimum asset share of nil and a maximum asset share equal to the value of the transferring liabilities.

The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a MAT, in which case the new academy will pay the MAT contribution rate.

The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

The Fund's full policy on academy participation is detailed in Appendix I.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

The Fund's default position is to require all new admission bodies to be set up with a pass-through arrangement, unless alternative arrangements for mitigating the risk to the Fund of a contractor's participation are put in place by the letting employer. The assessment of the adequacy of the alternative arrangements will be carried out by the Administering Authority in conjunction with the Fund Actuary.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, e.g., set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The Fund's admissions policy is detailed in Appendix E.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The Fund's bulk transfer policy is available in Appendix G.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA)

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is available in Appendix F.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The Fund's policy on exit credit policy is included in the cessation policy in Appendix F.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

- The Fund's policy on employer flexibilities is included in the cessation policy in Appendix F..

1. If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme. the implied deficit recovery period
2. the investment return required to achieve full funding after 20 years.

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at the formal valuation.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

4. comparing funds with an objective benchmark
5. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
6. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
7. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
8. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A - The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included involved an informal stage focussing on key changes such as the introduction of "pass through" arrangements where a range of engagement including face to face and online meetings with employers took place followed by a formal stage which involved issuing a draft version of the full FSS to participating employers and publishing the draft documents on the Authority's website.

A3 How is the FSS published?

The FSS is emailed to participating employers and employee and pensioner representatives. Summaries are issued to members and a full copy is included in the fund's annual report and accounts and the Fund's website. Copies are freely available on request and sent to investment managers and independent advisers.

The FSS is published here.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Authority and included in the relevant meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation on the Fund's website www.sypensions.org.uk

Appendix B - Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations
2 manages any conflicts of interest from its dual role as administering authority and a fund employer
3 collects employer and employee contributions, investment income and other amounts due
4 ensures cash is available to meet benefit payments when due
5 pays all benefits and entitlements
6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
7 communicates with employers so they understand their obligations
8 safeguards the fund against employer default
9 works with the fund actuary to manage the valuation process
10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
11 consults on, prepares and maintains the funding and investment strategy statements
12 tells the actuary about changes which could affect funding
13 monitors the fund's performance and funding, amending the strategy statements as necessary
14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay
2 pay all contributions by the due date
3 have appropriate policies in place to work within the regulatory framework
4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
2 provides information to the Government Actuary Department so they can carry out their statutory obligations
3 advises on fund employers, including giving advice about and monitoring bonds or other security
4 prepares advice and calculations around bulk transfers and individual benefits
5 assists the administering authority to consider changes to employer contributions between formal valuations
6 advises on terminating employers' participation in the fund
7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 Internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
2 Investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
3 Auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
4 Governance advisers may be asked to advise the administering authority on processes and working methods

5 Internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority’s own procedures

6 The Department for Levelling Up, Housing and Communities, assisted by the Government Actuary’s Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C - Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

Details of the key fund-specific risks and controls are below.

C2 Financial risks

The financial risks are as follows;

- Investment markets fail to perform in line with expectations
- Protection and risk management policies fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of a risk management framework to manage the key financial risks will help reduce risk over time.

C3 Demographic risks

The demographic risks are as follows;

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds. Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk.

The Fund's ill health captive arrangement will also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members (see further information in Appendix L).

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to minimise the number of ill-health retirements.

Early retirements for reasons of redundancy and efficiency do not immediately affect the solvency of the Fund because they are the subject of a direct charge. With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

C4 Regulatory risks

The key regulatory risks are as follows;

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme. Typically these would be via the Cost Management Process although in light of the McCloud discrimination case there can be exceptional circumstances which give rise to unexpected changes in Regulations

- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy.

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

C5 Governance risks

Governance risks are as follows;

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Political risk that the academies guarantee from the Department for Education is removed, especially given the large increase in the number of academies in the Fund.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. with regular data reconciliations with employers), but in most cases the employer, rather than the Fund as a whole, bears the risk

C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire	Tax-raising or government-backed, no individual assessment required	N/a
Colleges & Universities	Review of accounts and engagement with DfE if required	Regular scheduled review
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (including TABs & CABs)	Guarantor and/or indemnity or bond required to support new admission agreements	Indemnity or bond subject to regular review
Designating employers	Generally backed by tax raising powers	N/a

C7 Climate risk and TCFD reporting

The fund included climate scenario stress testing in the contribution modelling exercise for the stabilised employers at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied.

The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Policy Framework and a separate Climate Change Policy, both of which were last agreed by Pensions Authority in March 2023.

C8 Local Pension Board

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

The Board seeks to assist the South Yorkshire Pensions Authority to maintain effective and efficient administration and governance. The LPB comprises both Scheme members, retired and active, together with employer representatives. Employer representation is not restricted to the four large local Councils.

It meets quarterly and all Board Members have undertaken training and have established a work programme that will enable them to meet their obligations to ensure that the Fund complies with the relevant codes of practice and current legislation.

The Board is now supported by an Independent Adviser in order to ensure that it can provide effective challenge to the Authority and its officers

Appendix D - Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns											
		Cash	Index Linked Gilts (medium)	UK Equity	Overseas Equity	Private Equity	Property	Infrastructure Equity	Multi Asset Credit (sub inv grade)	Global High Yield Debt	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th %'ile	0.8%	-1.9%	-0.4%	-0.7%	-1.2%	-0.6%	-1.1%	1.7%	0.6%	1.6%	-1.7%	1.1%
	50th %'ile	1.8%	0.2%	5.7%	5.6%	9.4%	4.4%	4.9%	3.5%	3.4%	3.3%	-0.5%	2.5%
	84th %'ile	2.9%	2.4%	11.6%	11.7%	20.1%	9.5%	10.9%	5.2%	5.8%	4.9%	0.7%	4.3%
20 years	16th %'ile	1.0%	-1.5%	1.7%	1.5%	2.4%	1.4%	1.2%	2.8%	2.1%	1.2%	-0.7%	1.3%
	50th %'ile	2.4%	0.1%	6.2%	6.1%	10.0%	5.0%	5.6%	4.4%	4.2%	2.7%	1.1%	3.2%
	84th %'ile	4.0%	1.9%	10.6%	10.8%	17.6%	8.9%	10.1%	6.0%	6.4%	4.3%	2.7%	5.7%
40 years	16th %'ile	1.2%	-0.3%	3.2%	3.1%	4.7%	2.6%	2.6%	3.6%	3.1%	0.9%	-0.6%	1.1%
	50th %'ile	2.9%	1.2%	6.7%	6.5%	10.3%	5.5%	6.1%	5.3%	5.1%	2.2%	1.3%	3.3%
	84th %'ile	4.9%	3.1%	10.2%	10.2%	16.1%	8.8%	9.8%	7.1%	7.2%	3.7%	3.2%	6.1%
	Volatility (Disp) (1 yr)	2%	7%	18%	19%	30%	15%	18%	6%	8%	3%		

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.3%
Low-risk exit basis	Community admission bodies closed to new entrants	0%
Contractor exit basis	Transferee admission bodies	Ongoing basis

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.45% applies. This is based on a prudent estimate of investment returns, specifically, that there is a 70% likelihood that the fund's assets will future investment returns of 4.45% over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.
The CPI assumption is based on Hymans Robertson's ESS model. The median value of average CPI inflation over the next 20 years from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.6% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions	
Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	0% of members will choose the 50:50 option.

Males

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	242.58	487.81	0	0	0	0
25	117	0.17	160.24	322.22	0	0	0	0
30	131	0.2	113.69	228.58	0	0	0	0
35	144	0.24	88.83	178.58	0.1	0.07	0.02	0.01
40	150	0.41	71.52	143.73	0.16	0.12	0.03	0.02
45	157	0.68	67.18	134.98	0.35	0.27	0.07	0.05
50	162	1.09	55.38	111.14	0.9	0.68	0.23	0.17
55	162	1.7	43.61	87.56	3.54	2.65	0.51	0.38
60	162	3.06	38.87	78.01	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.1	211.45	280.42	0	0	0	0
25	117	0.1	142.28	188.66	0.1	0.07	0.02	0.01
30	131	0.14	119.27	158.13	0.13	0.1	0.03	0.02
35	144	0.24	102.94	136.43	0.26	0.19	0.05	0.04
40	150	0.38	85.67	113.51	0.39	0.29	0.08	0.06
45	157	0.62	79.95	105.91	0.52	0.39	0.1	0.08
50	162	0.9	67.41	89.19	0.97	0.73	0.24	0.18
55	162	1.19	50.3	66.62	3.59	2.69	0.52	0.39
60	162	1.52	40.53	53.62	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

The discount rate will be set in a risk-based way allowing for a higher likelihood that the Fund's assets will achieve the required investment return over the next 20 years.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed. South Yorkshire Pension Fund December 2022

When the "corridor" approach (as described in Section 8.2) is being used to determine the final cessation valuation, an upper and lower amount is required. The actuary will calculate these amounts by changing the discount rate to reflect the fund's views of the maximum and minimum amount of assets required to pay for the benefits of the ceasing employer's members and will represent the bounds of the corridor. As above, these two values will be based on the likelihood of the fund's assets achieving certain future investment returns over the 20 years.

Contractor exit basis

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply. The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set equal to the expected returns over the period of 16 years based on a 70% probability

South Yorkshire Pension Fund
Policy on admissions

SOUTH YORKSHIRE PENSIONS AUTHORITY

November 2022

Effective date of policy	17th March 2023
Date approved	16th March 2023
Next review	March 2026

1. Introduction

The purpose of this policy is to set out the administering authority's default approach to admitting new employers into the fund.

While it is possible for a prospective new employer to request alternatives, any deviation from the stated default position would have to ensure no risk to other scheme employers and will be at the discretion of the Fund to agree to.

In addition, and subject to review on a case-by-case basis, the fund may be willing to apply its pass-through principles to other admission bodies where liabilities are covered by a guarantor within the fund.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- Set out how the fund ensures that only appropriate bodies are admitted to the Fund and that the financial risk to the fund and to other employers in the fund is identified, minimised, and managed accordingly.
- Set out the Fund's default position in relation to the admission of new employers.
- In respect of the admission of new contractors, to set out the calculation of contribution rates and how risks are shared under the pass-through arrangement.
- To outline the process for admitting new employers into the fund.

1.2 Background

It is essential for the administering authority to establish its fundamental approach to the risks involved in the admission of new employers to the fund.

The regulatory framework relating to the different types of employer that may join the fund is set out in the next section.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the various types of employer that can participated in the fund and the different requirements that apply to each. These can be summarised as:

- **Scheduled Bodies** listed in Part 1 to Schedule 2 – the councils, further education colleges, academies, police and fire services. These bodies must provide access to the LGPS to their employees (assuming they are not eligible to be members of other pension schemes)
- **Designating employers** listed in Part 2 to Schedule 2 – have the right to decide who of their employees are eligible to join the scheme. Includes town and parish councils, as well as entities connected to bodies in Part 1 above. If a relevant designation is made the Administering Authority cannot refuse entry into the scheme in respect of that employer.
- **Admission bodies listed in part 3 to schedule 2** – who can apply to participate in the scheme. Admission bodies can encompass a variety of different types of employer. These are –
    - a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);
    - a body, to the funds of which a Scheme employer contributes;
    - a body representative of any Scheme employers, or local authorities or officers of local authorities;
    - a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—
        - the transfer of the service or assets by means of a contract or other arrangement (i.e. outsourcing),
        - a direction made under section 15 of the Local Government Act 1999,
        - directions made under section 497A of the Education Act 1996;
    - a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

When an administering authority is considering permitting a body to become an admission body, the LGPS Regulations include some discretions relating to the creation and management of admission agreements. These discretions are considered within this policy. The discretionary areas are:

- Part 3 of Schedule 2 (para 1) – Whether or not to proceed with admission agreements
- Part 3 of Schedule 2 (para 9(d)) – Whether to terminate the admission agreement

- Regulation 54(1) – If the Fund will set up separate pension funds in respect of admission agreements

Further, the regulations contain requirements around the determination of employer contributions, and the relevant provisions regarding the payment of these, specifically:

- Regulation 67 – which sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate.
- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.

Employees outsourced from local authorities, police and fire authorities or from independent schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

2 Statement of principles

2.1 General

The administering authority's policy is drafted on the basis of the following key principles:

- to ensure the long-term solvency of the fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the fund so that the administering authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to set clear principles and ensure there is a consistency of requirement for employers in respect of all admissions and cessations to and from the fund.
- to ensure employers recognise the impact of their participation in the LGPS, helping them manage their pension liabilities as they accrue and understanding the effect of those liabilities on the ongoing operation of their business;
- to minimise the degree of short-term change in the level of each employer's contributions where the administering authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Best Value Authorities Staff Transfer (Pensions) Direction 2007 and Fair Deal guidance) as they pertain to admission agreements are adhered to.

2.2 New contractors

This statement of principles covers the **admission of new contractors** to the fund. Each case will be treated on its own merits, but in general:

- In the absence of a preferred approach from the letting authority, pass-through is the default approach for the admission of all new contractors to the fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils, police & fire authorities, and academy trusts ("the letting authority").
- Pass-through is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.
- The contractor's pension contribution rate is set equal to the primary contribution rate payable by the letting authority. This will change from time to time in line with changes to the letting authority's primary contribution rate (i.e. following future actuarial valuations).

- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.
- Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or letting authority).
- The terms of the pass-though agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply for the admission of new contractors, however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above.

The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

3 Policy and process – all employers

3.1 Entry conditions

The following entry conditions apply;

- **Scheduled bodies** must ensure that the fund is aware of their creation.
- **Designating employers** must ensure that the fund is aware of their creation and provide the fund with a copy of its resolution, confirming who is eligible for membership of the fund.
- **Admission bodies**. The fund will consider applications from bodies;
    - with links to a scheme employer, or
    - that provides services or assets on behalf of a scheme employer

  Agreements can be open or closed so long as necessary protections are in place.

3.2 Security

The security requirements (i.e. via a bond, indemnity and/or guarantor) are as follows:

- The are no security requirements for **scheduled bodies** and **designating employers**.
- **Admission bodies**. Where contractors are being admitted to the fund under a pass-through arrangement, the requirement set out in Section 4 will apply. For all other admission bodies:
    - the admission body is required to undertake risk assessment to the satisfaction of the administering authority (and scheme employer where seeking admission as a body under Par 1(d) to Part 3 of Schedule 2).
    - the admission body is required to put in place a secure and financially durable bond to the satisfaction of the administering authority or agree an alternative guarantor (generally with a scheme employer and/or government department).
    - Documentary evidence of the bond or guarantee must be provided to the administering authority by the admission body.
    - The level of risk must be reviewed and any associated security renewed on an annual basis

3.3 Approval

The process for approving the participation of a new employer in the fund is as follows;

- **Scheduled bodies**. The Fund has no power to refuse participation of any new employer set up under Part 1 of schedule 2 and where the Fund is designated as the appropriate Fund for that employer.
- **Designating employers** The Fund has no power to refuse participation of an employer under Part 2 of schedule 2, although it will require sight of a signed copy of the relevant resolution to confirm the employees eligible for participation in the scheme.
- **Admission bodies**. Fund officers to be responsible for ensuring prospective admission bodies meet the necessary criteria. Admission agreement template will generally be standard and non-negotiable

All new employers will be reported to the Pension Authority and Local Pension Board for information only.

3.4 Asset allocation

The starting asset allocation for new employers will be determined in the following way;

- **Scheduled bodies and designating employers.** Assets for any new employer will be calculated using the Fund's ongoing funding basis, as set out in the Funding Strategy Statement (FSS).

  Academies may be pooled with other academies as part of a Multi Academy Trust (MAT).

  Where a new employer is created from an existing scheme employer, the initial asset allocation will be based on a share of the ceding employer's assets, with consideration taken of the ceding employer's estimated deficit as at the date of transfer.
- **Admission bodies**. The asset allocation will be agreed on a case by case basis. For new contractors participating in the fund under a pass-through arrangement, the fund assets (and liabilities) associated with outsourced employees are retained by the letting authority.

3.5 Contributions

Contribution rates will be set in accordance with the FSS.

3.6 Costs

Employer being admitted to the fund will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

3.7 Employer specific policy

Connected entities

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer. Although connected entities are "designating bodies" under the regulations, they have similar characteristics to admitted bodies (in that there is an "outsourcing employer"). However, the regulations do not strictly require such bodies to have a guarantee from a scheme employer. However, to limit the risk to the fund, the administering authority will require that the scheme employer provides a guarantee for their connected entity, in order that the ongoing funding basis will be applied to value the liabilities.

Children's centre transfer to academy trusts

Local education authorities have an obligation to provide children's centres under the Childcare Act 2006. The Act places duties on these authorities in relation to establishing and running children's centres and therefore the financial obligation to cover the LGPS costs of eligible staff remains a responsibility of the local education authority regardless of service delivery vehicle. The local education authority is liable for all the LGPS liabilities of the children's centre.

As the staff cannot be employed directly by an academy or academy trust, the fund will permit admission of a separate participating employer (with its own contribution rate requirements based on the transferring staff), through a tri-partite admission agreement between the fund, the local education authority of the ceding council and the body responsible for managing the children's centre (this could be an academy trust or private sector employer).

Second generation outsourcings

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the unitary authorities, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy.

In this instance the contracting body is termed a ‘Related Employer’ for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor. “Related Employer” is defined as “any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)”

4 Policy and process – new contractors

4.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

4.2 Contribution rates

The contribution rate payable by the contractor over the period of participation will be set equal to the primary rate payable by the letting authority from time to time. This means that the contractor’s contribution rate will change once every three years, following the triennial actuarial valuation, but not between those times. Even then, this would always be in line with changes in the letting authority future service primary rate, and not affected by the (generally more volatile) changes in past service funding level.

4.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor’s participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	Letting authority	Contractor/ Admitted body
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual *		✓
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual *		✓
Price inflation affects past service liabilities	✓	
Price inflation / pension increases that affect future accrual *		✓
Exchange of pension for tax free cash	✓	
Ill health retirement experience	✓	
Strain costs attributable to granting early retirements (not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor’s employee membership	✓	

Changes to LGPS benefit package *		✓
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund (the letting authority may wish to address this as part of any contract discussions).	✓	
Award of additional pension or augmentation		✓

** These elements would be picked up at the next triennial valuation, if the contractor is still active in the Fund at that time and would feed through into the letting authority's primary contribution rate and hence the contractor's contribution rate.*

4.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The administering authority expect employers to seek approval to the treatment of pension costs from their auditor.

4.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the Administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

4.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification -** The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the fund during the period of participation and meeting the cost of (non-ill health) early retirement strains, the cost of benefit augmentations. It should also advise the employer contribution rate as detailed in paragraph 4.2.
- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.
- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.
- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.
- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.
- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the fund can start to receive contributions from the contractor and its employee members (backdated if necessary).
- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

5 Related Policies

The information contained with the FSS applies equally to admission bodies as to other participating employers within the Fund. This admissions policy, therefore, supplements the general policy of the Fund as set out in the FSS and should be read in conjunction with that document, together with its associated funding policies.

South Yorkshire Pension Fund
Policy on cessations

Effective date of policy	17th March 2023
Date approved	16th March 2023
Next review	March 2026

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework and the fund's discretionary policies (see below).

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

1.2 Background

As described in Section 8 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the fund. On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.
- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
    a) Notify its intention to make a determination to-
        (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
        (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
    b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.
- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
    a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
    b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
    c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
    d) Any other relevant factors
- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.
- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the fund from the exiting employer.
- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.
- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

2 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 8 of the FSS and Section 3.1 below). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of any cessation debt.

3 Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see 3.2 Repayment flexibility on exit payments below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see 3.3 Exit credits below).

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 8.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Low risk basis[1]	Shared between other fund employers
Colleges & Universities	Low risk basis[1]	Shared between other fund employers
Academies	Low risk basis[1]	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Ongoing basis[2]	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk basis	Shared between other fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other fund employers (if no guarantor exists)

[1]Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Risk Based cessation approach

The fund uses a risk-based approach to set employer funding strategy, including within cessation calculations. In particular, the likelihood of the fund's assets achieving particular future investment returns is analysed.

Where appropriate, the fund will use this approach to set an upper and lower amount (or "corridor") in order to consider the amount of assets a ceasing employer must leave behind to pay for its members' benefits.

Under this approach, an employer is be deemed to have a deficit if its assets are below the lower amount and a surplus if its assets are above the higher amount (ie there will be no deficit or surplus if a ceasing employers assets fall within the "corridor").

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one (new or existing) employer within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 8.5 of the FSS would apply.

Further details are included in the Fund's Academies Policy.

3.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.

- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, to be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.

Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

The employer enrols new active fund members.

The period specified, or as varied, under the DDA elapses.

The take-over, amalgamation, insolvency, winding up or liquidation of the employer.

The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.

The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).

The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.

The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority may determine the amount of exit credit payable to be nil, however in making a determination the Administering Authority will take into account the following factors.

a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors.

Admitted bodies

i. No exit credit will normally be payable in respect of admissions who joined the Fund before 14 May 2018. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.

ii. No exit credit will be normally payable to any admission body who participates in the fund via the mandated pass through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.

iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.

iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.

v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer subject to the assets being above the upper "corridor" amount – see "Risk-based cessation approach" above.

viii. The decision of the fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.

iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer subject to the assets being above the upper "corridor" amount – see "Risk-based cessation approach" above.

General

i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.

iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.

iv. The final decision will be made by the pension manager, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.

vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

vii. None of the above should be considered as fettering the fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary

increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

4.2 Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "Section 8 – What happens when an employer leaves the fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

South Yorkshire Pension Fund

Policy on bulk transfers

Effective date of policy	17th March 2023
Date approved	16th March 2023
Next review	March 2026

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the fund in prescribed circumstances.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- Bulk transfers out of the fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- Bulk transfers received by the fund must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case-by-case basis.

1.2 Background

Bulk transfers into and out of the fund can occur for a variety of reasons, such as:

- where an outsourcing arrangement is entered into and active fund members join another LGPS fund, or leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the Fund from another LGPS fund or a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services, college mergers or multi-academy trust consolidations); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

1.3 Guidance and regulatory framework

Local Government Pension Scheme Regulations

When considering any circumstances involving bulk transfer provisions, the administering authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations 2013 (as amended), including:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement.
- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value.
- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment, must be granted their request. For members with "non-Club" accrued rights the LGPS fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.
- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

Best Value authorities

The Best Value Authorities Staff Transfers (Pensions) Direction 2007, which came into force on 1 October 2007, applies to all "Best Value Authorities" in England. Best Value Authorities include all county, district and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and
- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

Academies and multi-academy trusts

New Fair Deal guidance, introduced in October 2013, applies to academies and multi-academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result the fund would not expect to have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi-academy trusts.

Other employers

For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (i.e. town and parish councils, arms-length organisations, further and higher education establishments, charities and other admitted bodies), and who are not subject to the requirements of Best Value Direction or new Fair Deal guidance, there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services. However, any successful contractor is free to seek admission body status in the fund, subject to complying with the administering authority's requirements (e.g. having a bond or guarantor in place).

The old Fair Deal guidance may still apply to a specific staff transfer if permitted by the new Fair Deal guidance or if outside the coverage of the new Fair Deal guidance. (If the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement the administering authority would not expect to pay out more than individual Cash Equivalent Transfer Value (CETV) amounts, in accordance with appropriate Government Actuary's Department (GAD) guidance.

2 Statement of principles

This statement of principles covers bulk transfer payments into and out of the fund. Each case will be treated on its own merits alongside appropriate actuarial advice, but in general:

- Where a group of active scheme members joins (or leaves) the fund, the administering authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits.
- Ordinarily the administering authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the employer's share of fund assets (capped at 100% of the value of the liabilities). The fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer – including (but not restricted to):
    - the use of cessation assumptions where unsecured liabilities are being left behind;
    - where a subset of an employer's membership is transferring (in or out), the Fund may consider an approach of calculating the bulk transfer payment as the sum of CETVs for the members concerned; or
    - where transfer terms are subject to commercial factors.
- Where an entire employer is transferring in or out of the fund the bulk transfer should equal the asset share of the employer in the transferring fund regardless of whether this is greater or lesser than the value of past service liabilities for members.
- There may be situations where the fund accepts a transfer in amount which is less than required to fully fund the transferred in benefits on the fund's ongoing basis (e.g. where the employer has suitable strength of covenant and commits to meeting that shortfall over an appropriate period). In such cases the administering authority reserves the right to require the receiving employer to fund this shortfall (either by lump sum or by increasing in ongoing employer contributions) ahead of the next formal valuation.
- Any shortfall between the bulk transfer payable by the fund and that which the receiving scheme is prepared to accept must be dealt with outside of the fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.
- Service credits granted to transferring scheme members should fully reflect the value of the benefits being transferred, irrespective of the size of the transfer value paid or received.

3 Policy

The following summarises the various scenarios for bulk transfers in or out of the fund, together with the Administering Authority's associated policies.

3.1 Inter-fund transfer (transfer between the fund and another LGPS fund)

Scenario	Bulk transfer mechanism	Policy	Methodology
In	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	On receipt of a transfer value (calculated in line with the CETV transfer out formulae), the Fund will award the member a pension credit on a day-for-day basis.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the transferring fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached: **Actives only transferring:** CETVs in accordance with GAD guidance using transferring fund's actual fund returns for roll up to date of payment (rather than the interest applied for standard CETV's). **All members transferring (i.e. all actives, deferred and pensioners):** Receive all assets attributable to the membership within the transferring scheme.	The Fund's default policy is to accept a transfer value that is at least equal to the total of the individual CETVs calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Pension credits will be awarded to the transferring members on a day-for-day basis.
Out	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached: **Actives only transferring (i.e. remaining members left behind):** CETV in accordance with GAD guidance using transferring fund's actual fund returns for roll-up to date of payment (rather than the interest applied for standard CETV's). **All actives transferring (i.e. deferred and pensioner members left behind):** Assets will be retained by the Fund to cover the liabilities of the deferred and pensioner members calculated using the Fund's cessation assumptions. The residual assets will then be transferred to the receiving scheme. **All members transferring (i.e. all actives, deferred and pensioners):**	The Fund's default policy is to offer a transfer value that is equal to the total of the individual CETV calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Discretion exists to amend this to reflect specific circumstances of the situation.

		Transfer all assets attributable to the membership to the receiving scheme.	

3.2 Club Scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	Club Memorandum	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits.	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the ceding employer's share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.

3.3 Broadly Comparable Scheme or non-Club scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer in formulae.
Out	1 member only – GAD guidance	CETV in accordance with GAD guidance	The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
	2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The fund's default policy is to offer the receiving scheme transfers out calculated in line with the CETV transfer-out formulae. Discretion exists to amend this to reflect specific circumstances of the situation.

4 Practicalities and process

4.1 Format of transfer payment

Ordinarily payment will be in cash.

A deduction from the bulk transfer will be made for any administration, legal and transaction costs incurred by the Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

4.2 Impact on transferring employer

Any transfer out or in of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The Fund will agree with the transferring employer how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover any relative deterioration in deficit, for example where the deterioration in deficit is a large proportion of its total notional assets and liabilities. Where the transfer is small relative to the employer's share of the Fund, any adjustment may be deferred to the next valuation.

4.3 Consent

Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

4.4 Approval process

The Fund will normally agree to bulk transfers into or out of the Fund where this policy is adhered to.

4.5 Non-negotiable

It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

4.6 Costs

Actuarial and other professional costs will be recharged in full to the employer.

Staff time involved on the Fund side will be charged at the rate defined within the Administration Strategy Statement.

5 Related Policies

Section 7 of the Fund's Funding Strategy Statement.

South Yorkshire Pension Fund
Policy on contribution reviews

SOUTH YORKSHIRE PENSIONS AUTHORITY

Effective date of policy	17th March 2023
Date approved	16th March 2023
Next review	March 2026

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

1.3 Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations. It will also consider requests from employers to do so.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

3 Policy

3.1 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer’s request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer’s request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer’s liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation. However, if a contribution change is proposed, this may take account of changes in markets and asset values since the last formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

South Yorkshire Pension Fund
Policy on Academy Funding

SOUTH YORKSHIRE PENSIONS AUTHORITY

Effective date of policy	17th March 2023
Date approved	16th March 2023
Next review	March 2026

1 Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies and Multi-Academy Trusts (MATs).

1.1 Aims and Objectives

The administering authority's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT
- to state the approach for setting contribution rates for MATs
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

1.2 Background

As described in Section 5.2 of the Funding Strategy Statement (FSS), new academies join the fund on conversion from a local authority school or on creation (eg newly established academies, Free Schools, etc). Upon joining the fund, for funding purposes, academies may become stand-alone employers or may join an existing MAT.

Funding policy relating to academies and MATs is largely at the fund's discretion, however guidance on how the fund will apply this discretion is set out within this policy.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the fund which may be relevant but is not specific to academies.

There is currently a written ministerial guarantee of academy LGPS liabilities, which was reviewed in 2022.

Academy guidance from the Department for Education and the Department for Levelling Up, Housing and Communities may also be relevant.

2 Statement of Principles

This Statement of Principles covers the fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding councils, MATs and individual academies.
- the fund's current approach is to treat all academies within a MAT as a single employer (effectively operating as a funding pool where all pension risks are shared).
- academies must consult with the fund prior to carrying out any outsourcing activity.
- the fund will generally not consider receiving additional academies into the fund as part of a consolidation exercise, unless this has been mutually agreed with the relevant administering authorities.

3 Policies

3.1 Admission to the fund

As set out in section 5.2 of the FSS:

Asset allocation on conversion

New academies will be allocated an asset share based on the school's share of the historic local authority deficit prior to its conversion. This deficit is calculated as the capitalised secondary contributions (over the time horizon) the school would have made to the Fund had it not converted to academy status, subject to a minimum asset share of nil and a maximum asset share equal to the value of the transferring liabilities.

Contribution rate

New academy contribution rates are based on the current funding strategy (set out in section 2 of the FSS) and the transferring membership.

If an academy is joining an existing MAT within the fund then it will pay the MAT contribution rate (which may or may not be updated as a result - see below), unless the MAT has requested individual rates be paid by each academy.

3.2 Multi-academy trusts

Asset tracking

The fund's current policy is to pool assets (and liabilities) of all the academies within a MAT. Once an academy joins a MAT the individual asset share of that academy is merged into the MAT.

In the interests of transparency and clarity around entry and exit of individual academies to the Trust in the future, the asset share for individual academies will continue to be tracked separately.

Contribution rate

The default approach is that the MAT is treated as a 'full funding risks' pool meaning that all academies within the MAT pay the same contribution rate to the fund and all membership experience is shared across the MAT (i.e. full cross-subsidy exists). The MAT may elect to retain individual rates for each academy.

Any transferring academy will pay the certified contribution rate of the MAT it is joining. At the discretion of the fund, the MAT's contribution rate may be revised by the fund actuary to allow for impact of the transferring academy joining.

Academies leaving a MAT

If an academy(ies) leave(s) a MAT all active, deferred and pensioner members will transfer from the MAT to the new MAT or standalone employer.

3.3 Merging of MATs (contribution rates)

If two MATs merge during the period between formal valuations, the new merged MAT will pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation (NB where one or both MATs are paying a monetary secondary contribution rate these will be converted to a % of pay for the purposes of determining the new merged contribution rate).

Alternatively, as set out in the fund's contribution review policy and per Regulation 64 A (1)(b) (iii) the MAT may request that a contribution review is carried out. The MAT would be liable for the costs of this review.

3.4 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in 3.2 above.
- In all other circumstances, and following payment of any cessation debt, section 8.5 of the FSS would apply.

3.5 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the fund they would need to seek approval from the secretary of state to consolidate their liabilities (and assets) into one LGPS fund. It is the fund's preference that academies do not seek to consolidate.

The fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund, however the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

3.6 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract.

It is critical for any academy (or MAT) considering any outsourcing to contact the fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the fund's admissions policy.

In some cases, it is necessary to seek approval from Department for Education before completing an outsourcing (including seeking confirmation that the guarantee provided to academies will remain in place for the transferring members).

The academy (or MAT) will provide the Fund with a copy of the contract (between the ceding Academy and the new contractor) in order to satisfy the regulatory requirement that the Admission Agreement covers one contract.

The Admission Agreement will need to have provision for adding future employees should any academies join the MAT subsequent to the commencement date.

3.7 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (eg academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

4 Related Policies

The fund's approach to admitting new academies into the fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

The following Fund policies are also relevant:

- Contribution review policy
- Cessation policy
- Bulk transfer policy

South Yorkshire Pension Fund Policy on Covenant Assessment and Monitoring

SOUTH YORKSHIRE PENSIONS AUTHORITY

Effective date of policy	17th March 2023
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Next review	March 2026

1 Introduction

The purpose of this policy is to set out the administering authority's approach to assessing and monitoring covenant.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To outline the general approach taken by the fund when carrying out a covenant assessment, including the key risk criteria.
- To outline the process for monitoring covenant strength.

1.2 Background

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and cessation funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

2 Statement of principles

The assessment criteria upon which an employer should be reviewed includes the following;

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The employer's obligations to other pension schemes
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount, which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality
- The presence and nature of any guarantee provided by another scheme employer within the fund

3 Policy and process

3.1 Assessing employer covenant

The employer covenant will be assessed objectively and its ability to meet its obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the cessation basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.

3.2 Frequency of monitoring

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary. Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every twelve months.

3.3 Covenant risk management

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

- Parental Guarantee and/or Indemnifying Bond.
- Transfer to a more prudent actuarial basis (e.g. the termination basis).
- Shortened recovery periods and increased cash contributions.
- Managed exit strategies and bespoke investment strategies in the run up to exit.

- Contingent assets and/or other security such as escrow accounts.

4 Related policies

A summary of the Fund's policy on covenant assessment and monitoring, as they apply to employer groups, is set out in the FSS, specifically "Appendix C6 – Employer Covenant Assessment and Monitoring".

South Yorkshire Pension Fund Policy on Prepayments

Effective date of policy	17th March 2023
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1 Introduction

The purpose of this policy is to set out the administering authority's approach to the prepayment of regular contributions due by participating employers.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where prepayment of contributions will be permitted.
- To outline the key principles followed when calculating prepayment amounts.
- To outline the approach taken to assess the suitability of a prepayment as sufficient to meet the required contributions.

1.2 Background

It is common practice in the LGPS for employers to pre-pay regular contributions that were otherwise due to be paid to the fund in future. Employer contributions include the 'Primary Rate' – which is expressed as a percentage of payroll and reflects the employer's share of the cost of future service benefits, and the 'Secondary Rate' – which can be expressed as a percentage of payroll or a monetary amount and is an additional contribution designed to ensure that the total contributions payable by the Employer meet the funding objective in the long term.

On 22 March 2022, following a request from the LGPS Scheme Advisory Board, James Goudie QC provided an Opinion on the legal status of prepayments. This Opinion found that the prepayment of employee and employer contributions was not illegal, subject to the basis for determining the prepayment amount being reasonable, proportionate and prudent. Further, the Opinion set out specific requirements around the presentation of prepayments.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and specifies that primary contributions be expressed as a percentage of pensionable pay of active members.
- Regulation 62 - sets the requirement for an administering authority to prepare an R&A certificate.
- Regulation 9 – outlines the contribution rates payable by active members

2 Statement of principles

This statement of principles covers the prepayment of regular employer contributions to the fund. Each case will be treated on its own merits, but in general:

- The administering authority will permit the prepayment of employer contributions.
- Prepaying contributions expressed as a percentage of pay introduces the risk that the prepayment amount will be insufficient to meet the scheduled contribution (as a result of differences between expected and actual payroll). Prepaying contributions is therefore only permissible in the case of secure, long-term employers (e.g. local authorities).
- Prepayment of secondary contributions (which are typically expressed as monetary amounts) is permitted for all employers.
- The prepayment of employee contributions is not permitted.
- A discount will be applied where employer contributions are prepaid, to reflect the investment return that is assumed to be generated by the fund over the period of prepayment.
- The fund actuary will determine the prepayment amount, which may require assumptions to be made about payroll over the period which the scheduled contribution is due.
- Where contributions expressed as a percentage of pay have been prepaid, the administering authority will carry out an annual check (and additional contributions may be required by the employer) to make sure

that the actual amounts paid are sufficient to meet the contribution requirements set out in the R&A certificate.

- Prepayment agreements will be documented by way of correspondence between the administering authority and the employer.
- The Rates & Adjustments (R&A) certificate will be updated on an annual basis to reflect any prepayment agreements in place.
- Employers are responsible for ensuring that any prepayment agreement is treated appropriately when accounting for pensions costs, and for ensuring the agreement of their own auditor.
- Prepayment agreements can cover any annual period of the R&A (or a consecutive number of annual periods).

3 Policy

3.1 Eligibility and periods covered

The fund is happy to consider requests from any employers to pre-pay certified primary and secondary contributions. However, in general, the prepayment of primary contributions is only appropriate for large, secure employers with stable active memberships. Employer contributions over the period of the existing R&A certificate (and, where a draft R&A certificate is being prepared following the triennial valuation, the draft R&A certificate) may be pre-paid by employers.

Prepayment of contributions due after the end of the existing (or draft) R&A certificate is not permitted, e.g. it would not be possible to prepay employer contributions due in the 2026/27 year until the results of the 2025 valuation are known and a draft R&A certificate covering the 2026 to 2029 period has been prepared.

3.2 Request and timing

Prior to making any prepayment, employers are required to inform the fund in writing of their wish to prepay employer contributions and to request details of the amount required by the fund to meet the scheduled future contribution.

This request should be received by the fund within 2 months of the start of the period for which the prepayment is in respect of.

The fund will then provide the employer with a note of the prepayment amount and the date by which this should be paid. In general, the prepayment should be made as close as possible to the beginning of the appropriate R&A period and by 31 May at the latest.

Failure to pay the prepayment amount by the specified date may lead to the need for an additional and immediate payment from the employer to ensure that the amount paid is sufficient to meet the certified amount set out in the R&A certificate.

3.3 Calculation

The fund actuary will determine the prepayment amount required.

Where the prepayment is in respect of contributions expressed as a percentage of pay:

- The fund actuary will determine the discounted value of scheduled contributions based on an estimate of payroll over the period (using the information available and assumptions set at the previous valuation) and the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- A sufficiency check will be required at the end of the period (see section 3.4)

Where the prepayment is in respect of contributions expressed as a monetary amount:

- The fund actuary will determine the discounted value of scheduled contributions based on the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- No sufficiency check will be required

Employers may pay more than the prepayment amount determined by the fund actuary.

No allowance for expected outsourcing of services and/or expected academy conversions will be made in the fund actuary's estimation of payroll for the prepayment period.

3.4 Sufficiency check

Where required, the fund actuary will carry out an **annual** assessment to check that sufficient contributions have been prepaid in respect of that period. Specifically, this will review the prepayment calculation based on actual payroll of active members over the period and this may lead to a top-up payment being required from the employer.

If this sufficiency check reveals that the prepayment amount was higher than that which would have been required based on actual payroll (i.e. if actual payroll over the period is less than was assumed), this will not lead to a refund of contributions to the employer.

The sufficiency check will not compare the assumed investment return (i.e. the discount rate) with actual returns generated over the period. i.e. the check considers payroll only. Any excess/shortfall arising due to actual investment returns being higher/lower than that assumed will form part of the regular contribution assessment at the next valuation (as per the normal course of events).

The administering authority will notify the employer of any top-up amount payable following this annual sufficiency check and the date by which any top-up payment should be made.

3.5 Documentation and auditor approval

The fund will provide the employer with a note of the information used to determine the prepayment amount, including:

- Discount rate used in the calculations
- The estimate of payroll (where applicable)
- The effective date of the calculation (and the date by which payment should be made)
- The scheduled regular payments which the prepayment amount covers.

The prepayment agreement will be reflected in the R&A certificate as follows:

- The unadjusted employer regular contribution rate payable over the period of the certificate
- As a note to the contribution rate table, information relating to the prepayment amount and the discount applied, for each employer where a prepayment agreement exists.

The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.

Employers should discuss the prepayment agreement with their auditor prior to making payment and agree the accounting treatment of this. The fund will not accept any responsibility for the accounting implications of any prepayment agreement.

3.6 Costs

Employers entering into a prepayment agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

3.7 Risks

Employers enter into prepayment agreements on the expectation that the fund will be able to generate higher returns than the employers can over the prepayment period. Employers should be aware that future returns are not guaranteed, and it is possible that the returns generated on prepayment amounts may be lower than that which can be generated by the employer. It is also possible that negative returns will arise, which lead to the value of any prepayment being less than that which was scheduled to be paid. In such circumstances, a top-up payment would not be required (as the sufficiency check only considers the effect of actual payroll being different to that assumed in the prepayment calculation), however the employer’s asset share would be lower than it would have been if contributions were paid as scheduled. This would be considered by the fund actuary at the next triennial valuation (as per the normal course of events).

4 Related Policies

The fund’s approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically “Section 2 – How does the fund calculate employer contributions?”.

South Yorkshire Pension Fund
Policy on Ill Health Risk Management

Effective date of policy	17th March 2023
Date approved	16th March 2023
Next review	March 2026

1 Introduction

The purpose of this policy is to set out the administering authority's approach to managing the risk arising due to ill health retirements.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To explain the approach taken to manage ill health risk
- To specify circumstances where a review of experience may lead to additional contributions.
- To outline the key risks and benefits to this arrangement.

1.2 Background

Additional liabilities can arise following the retirement of members due to ill health. These additional liabilities can include the unreduced early payment of pension benefits and the award of additional service. The level of pension benefits paid on ill health depends on the severity of the member's condition.

The LGPS Regulations require the additional liabilities to be funded by way of payments from employers. Payment of large lump sums to meet strains as and when they arise can lead to unexpected payments and put significant strain on employers' budgets. LGPS funds are able to put arrangements in place which mitigate the risk of having to pay a large cash sum due to an ill health retirement strain.

To mitigate this risk to employers and to evidence good governance and risk management, the decision has been taken to operate a captive insurance arrangement within the Fund.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the benefits payable to members and the way in which additional benefits (such as those arising on ill health early retirement) should be funded. These include the following:

- Regulation 35 – permits the early retirement of pension on ill health grounds.
- Regulation 39 – sets out the calculation of the pension payable in the instance of ill health retirement.
- Regulation 68 – sets out the additional contributions payable by the employer to meet the liability strain caused by a member retiring through ill health.

2 Statement of principles

This statement of principles covers the captive insurance arrangement in place to manage the risks created by ill health retirements. In general:

- This arrangement applies to all employers in the Fund (expect the secure major employers).
- Eligible employers are unable to opt out of this arrangement.
- A separate pot of assets (the 'captive fund') will be maintained to meet the cost of ill health retirement strains.
- Regular contributions payable by employers will include amounts equal to the expected cost of assumed ill health retirements. These amounts will be paid into the captive fund, and will be reassessed at each triennial actuarial valuation.
- Eligible employers will not be required to pay lump sum amounts to meet ill health retirement strains (in the normal course of events).
- Both Tier 1 and Tier 2 ill health retirement strains will be covered by this arrangement.
- The fund will look to protect eligible employers against the risk of unusually high ill health retirement experience of other employers.
- Employers not eligible to join the captive arrangement (i.e. secure long-term employers) will be responsible for meeting their own ill health retirement experience.

3 Policy

3.1 Purpose

The purpose of this captive insurance arrangement is to share the cost of ill health retirement experience across all small employers.

3.2 Eligibility

Eligible employers are:

- Academies and former grant-maintained schools
- All admitted bodies (including those legacy admitted bodies referred to as Community Admission Bodies and Transferee Admission Bodies)
- Designating / resolution bodies
- Other scheduled bodies as determined by the administering authority
- All other bodies with less than 100 members.

All ill health experience since 1 October 2014 is pooled as per the captive insurance arrangement.

3.3 Operation

The captive arrangement works as follows:

- Contribution rates are set by the Fund Actuary every three years as part of the triennial valuation. Primary contribution rates include allowance for the expected cost of assumed ill health retirements (expressed as a percentage of payroll) – this is referred to as the 'ill health premium').
- Ill health premiums are paid into the 'captive fund' – this is a separate pot of assets which is tracked by the Fund Actuary at each triennial valuation.
- All ill health retirement strains arising in respect of eligible employers are then met by the captive fund. In practice, assets equal to the strain payment due would be transferred within the fund from the captive fund to the employer's asset share.
- Note that this arrangement covers the initial employer strain cost, and does not monitor the actual cost of ill-health early retirements thereafter: in effect, each employer bears the risks (and receives the potential benefits) of its ill-health members incurring a higher or lower cost over the years than was anticipated by the strain cost.
- The ill health premiums will be reviewed at each triennial valuation with a view to ensuring that the captive fund is sufficient to meet the cost of ill health retirement strains over time. This review will consider the expected level of future ill health retirements and recognise the effect of any adverse/favourable ill health retirement experience. Advice will be taken from the Fund Actuary in the review of ill health premia, but in general:
    - Where a shortfall exists in the captive fund, this shortfall may be allocated across all eligible employers and/or this may lead to an increase in ill health premiums following the next triennial valuation.
    - Where excess funds exist in the captive fund, these may be used as a buffer against future adverse experience. Excess funds may be transferred to the eligible employers at the discretion of the administering authority.

The ill health retirement experience across eligible employers is likely to differ. This introduces cross-subsidies, in particular where the experience of one employer is very high compared to that of another. This is a feature of the captive insurance arrangement in place and no asset recalibration will take place to address such cross subsidies.

3.4 Review and additional contributions

The administering authority will review the level of ill health experience across all employers at each triennial valuation.

If an employer has an unusually high incidence of ill health retirement over the previous inter-valuation period, the administering authority will engage with the employer to understand the reasons for this. In the event of concerns around the eligibility criteria applied by the employer in granting ill health retirements, this could lead to the need for the employer to pay additional contributions to the fund (which would then be shared across all other employers as recompense for meeting this unusually high level of ill health retirement strains).

3.5 Costs

The costs of operating the captive insurance arrangement will be met by the fund.

3.6 Ineligible employers

Secure, long-term employers (such as Local Authorities) are not eligible to join the captive arrangement. For these ineligible employers, regular contributions paid include the expected cost of assumed ill health retirements. No additional contributions would be required from these employers as a result of actual ill health retirement experience. A review of experience will be carried out each triennial valuation, which will be used to set the assumptions underlying the calculation of contribution rates payable.

4 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

South Yorkshire Pension Fund Policy on Pass Through

Effective date of policy	17th March 2023
Date approved	16th March 2023
Next review	March 2026

1 Introduction

The purpose of this policy is to set out the administering authority's approach to the granting of admitted body status to contractors through the "pass through" mechanism.

1.1 Aims and Objectives

The administering authorities aims and objectives related to this policy are as follows:

- To explain the approach taken to the arrangements for admitting contractors to the Fund
- To specify the circumstances where a "pass through" arrangement for the setting of contribution rates and management of assets and liabilities will be used
- To outline the benefits and risks of this arrangement

1.2 Background

The admission of contractors to the Fund as a result of the TUPE transfer of employees can result in the admission of new small employers which because of their scale present a higher risk in terms of being able to maintain full funding particularly where contract lengths result in them becoming more exposed to market volatility than longer term employers.

To mitigate these risks and to ensure they are explicitly recognised during the contracting process this policy sets out the Fund's default position in relation to the admission of contractors.

1.3 Regulatory Framework

Employees outsourced from Local Authorities, or from Independent Schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007).

This may be achieved by offering affected employees' membership of an alternative broadly comparable scheme, however this is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

For the avoidance of doubt, this policy includes all outsourcings from Local Education Authority funded schools which include members eligible for participation in the LGPS.

2 Statement of Principles

This statement of principles covers the “pass through” arrangements put in place to manage the risks related to contractors’ participation in the Fund.

- Pass through is the default approach for the admission of all new contractors to the Fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils, Police & Fire authorities, and academy trusts (“the ceding employer”).
- The contractor’s pension contribution rate is set equal to the Primary contribution rate payable by the ceding employer. This will change from time to time in line with changes to the ceding employer’s Primary contribution rate (i.e. following future actuarial valuations).
- The Council retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.
- Ill health experience will be pooled with the ceding employer and no additional strain payments will be levied on the contractor in respect of ill health retirements.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor’s staff will remain the responsibility of the ceding employer during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the Fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the ceding employer) to the Fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations. Likewise, no “exit credit” payment will be required from the Fund to the contractor (or ceding employer).
- The terms of the pass though agreement will be documented by way of the admission agreement between the Pensions Authority, the ceding employer, and the contractor.
- All existing admission agreements are unaffected by this Policy.
- The principles outlined above are the default principles which will apply; however, the ceding employer may request the specific details of a particular agreement to differ from the principles outlined above. The Pensions Authority are not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the ceding employer to reach agreement.

3 Pass Through Arrangements For Contractors Admitted To The South Yorkshire Pension Fund

3.1 Pass through is an arrangement whereby the ceding employer (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract and the risk that the contributions paid may be insufficient to meet the employees' pension benefits at the end of the contract. Examples of risks which could cause the employer contribution rate to fluctuate could include the interest on the surplus / deficit, investment performance, changes to the investment return and inflation assumptions, changes to longevity assumptions, and changes in the membership profile (including, for example, longevity, and salary experience).

3.2 The contractor is responsible for (non-ill health) early retirement strain costs and the cost of any benefit augmentations awarded by the contractor.

3.3 The ceding employer retains responsibility for the cost of ill health retirements.

3.4 The ceding employer is arguably the party best able to manage these risks, which allows for a smooth and structured transition from the ceding employer to contractors, as well as smoother ongoing arrangements.

3.5 All assets and liabilities held in the Fund in respect of outsourced employees will remain the responsibility of the ceding employer. This reflects the sharing of risks between the ceding employer and the contractor i.e. the contractor is only responsible for paying the certified contribution rate and for meeting the cost of any one-off increases to liabilities due to (non-ill health) early retirement and augmentations.

3.6 It is the Pensions Authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions). However, as the ceding employer retaining most of the pension fund risk relating to contractors, these liabilities (and assets) will be included in the ceding employers' FRS102 / IAS19 disclosures.

3.7 Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

3.8 Ceding employers may request terms which differ from those set out in this policy and such request will be considered by the Pensions Authority.

3.9 All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this Policy.

4 Outsourcings Of Employees Who Are Active Members In The Fund

4.1 The Pensions Authority and the Fund Actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

4.2 The contribution rate payable by the contractor over the period of participation will be set equal to the Primary Rate payable by the ceding employer from time to time. This means that the contractor's contribution rate will change once every three years, following the triennial actuarial valuation, but not between those times. Even then, this would always be in line with changes in the ceding employer's future service Primary rate, and not affected by the (generally more volatile) changes in past service funding level.

4.3 The Rates and Adjustment certificate will reflect the rate applicable to each contractor.

4.4 Contractors must pay the Fund the appropriate employer and employee contributions by the 19th day of the following month.

4.5 The ceding employer will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The ceding employer is effectively guaranteeing the contractor's participation in the Fund.

4.6 A cessation valuation is required when a contractor no longer has any active members in the Fund (as per Regulation 64 of the Local Government Pension Scheme Regulations 2013). This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

4.7 Where a pass-through arrangement is in place, the Fund assets and liabilities associated with outsourced employees are retained by the ceding employer. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing and therefore that no cessation debt or exit credit is payable to or from the Fund.

4.8 The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

4.9 However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	Council	Contractor
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual*		✓
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual*		✓
Price inflation / pension increases that affect past service liabilities	✓	
Price inflation / pension increases that affect future accrual*		✓
Exchange of pension for tax free cash (commutation rate)	✓	
Ill health retirement experience (pooled with the ceding employer)	✓	
Strain costs attributable to granting early retirements not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package*		✓
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund (Letting Authority may wish to address this as part of any contract discussions).	✓	
Award of additional pension or augmentation		✓

These elements would be picked up at the next triennial valuation, if the contractor is still active in the Fund at that time and would feed through into the ceding employer's Primary contribution rate and hence the contractor's contribution rate.

5 Process

5.1 **Initial policy distribution** – The procurement department at each ceding employer that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below from paragraph 4.2 to 4.9 must be adhered to by the ceding employer and (where applicable) the winning bidder.

5.2 **Tender Notification -** The ceding employer must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the Fund during the period of participation and meeting the cost of (non-ill health) early retirement strains and the cost of benefit augmentations (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in **paragraph 3.2**.

5.3 **Initial notification to Pension Team** – The ceding employer must contact the Pensions Authority when a tender (or re-render) of an outsourcing contract is taking place and staff (or former staff) are impacted. The Pensions Authority must be advised prior to the start of the tender and the ceding employer must also confirm that the terms of this Policy have been adhered to.

5.4 **Confirmation of winning bidder** – The ceding employer must immediately advise the Pensions Authority of the winning bidder.

5.5 **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the ceding employer), should request to the Pensions Authority that it wishes to become an admitted body within the Fund.

5.6 **Template admission agreement** – a template admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Pensions Authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the Pension Authority and possibly its legal advisors.

5.7 **Post commercial contract** – Once the commercial contract has been signed, the winning bidder is then able to enter the Fund.

5.8 **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the Lead Finance Officer of the ceding employer, and the Fund Director at the South Yorkshire Pensions Authority. It is at this point the Fund can start to receive contributions from the contractor and its employee members (backdated if necessary).

5.9 **Admitted body status** – The ceding employer will advise the contractor of its requirements and responsibilities within the Fund.

6 Review

6.1 This policy takes effect for all new admission agreements commencing on or after 17th March 2023.

6.2 The policy will be reviewed every three years as part of the review of the Funding Strategy Statement alongside the formal actuarial valuations of the Fund or when relevant changes to the LGPS Regulations take place.

7 Related Policies

7.1 This policy supplements the general policy of the Fund as set out in the FSS and should be read in conjunction with that and the associated admissions and terminations policies.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Agenda Item

Subject	**Valuation 2022 - Outcome**	**Status**	For Publication
Report to	Authority	**Date**	16th March 2023
Report of	Director		
Equality Impact Assessment	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 members on the outcome of the triennial valuation process and seek acceptance of the Actuary's rates and adjustments certificate.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the outcome of the 2022 Triennial Valuation of the Fund.**

b. **Accept the Actuary's Rates and Adjustments Certificate subject to the agreement by the Director and the Actuary of any outstanding adjustments as a result of phasing and prepayments.**

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3 Link to Corporate Objectives

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

Scheme Funding

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

Effective and Transparent Governance

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

4 Implications for the Corporate Risk Register

4.1 This report addresses the various funding risks identified in the Corporate Risk Register.

5 Background and Options

5.1 The 2022 Valuation process is now virtually complete and the Actuary's final report and the formal Rates and Adjustments Certificate which set out the contributions due from each employer over the next three years is at Appendix A. While this is intended to be the final version of the Actuary's report a small number of further amendments as a result of requests for phasing and pre-payments may be necessary and the recommendations at the head of this report cater for this eventuality. The Fund's actuary will be present to present the report.

The Valuation Process

5.2 This valuation process fell immediately after the transition to a new actuary which while not ideal did, at least, mean that significant work on the preparation of valuation data had already been undertaken as part of the transition process. The initial provision of data worked relatively smoothly although there was some delay in data provision from the Authority due to the need to cleanse data. However, the actuary has commented that South Yorkshire was the first of their final reports to be issued which is a credit both to our team and to the efficiency of the actuary's systems.

5.3 There were some issues at a later stage in the process when it became clear from the initial results that for some academies the way in which the previous actuary had calculated starting positions for new academies was causing some distortion to results. This had to be addressed through back tracking membership data to the point of conversion. While not having an impact at whole fund level this has resulted in some improvement in the position for some academies, although with negligible impact elsewhere.

5.4 The final element of the process is the distribution of results and discussions with individual employers, including around options for phasing and prepayment. This element of the process did not go as smoothly as would have been hoped partly due to the fact that the work mentioned above delayed the point at which results could be distributed and partly because unexpected absence at SYPA meant that internal resources were not available to support this element of the process in the way originally planned. While this was a one off combination of factors which it is to be hoped will not reoccur it is important to say that the internal team stepped up in relation to this and the actuary was able to provide additional support to discussions with employers at short notice which means that issues have been dealt with, although probably not as slickly as we would have wanted and without the level of broader communication and engagement with employers that we would like to see.

5.5 We will be conducting a post valuation review with the actuary to see what lessons can be learnt and what we can do better next time.

Valuation Results

5.6 The tables below set out the whole fund position in relation to contribution rates and the funding position as expanded on in the report at Appendix A.

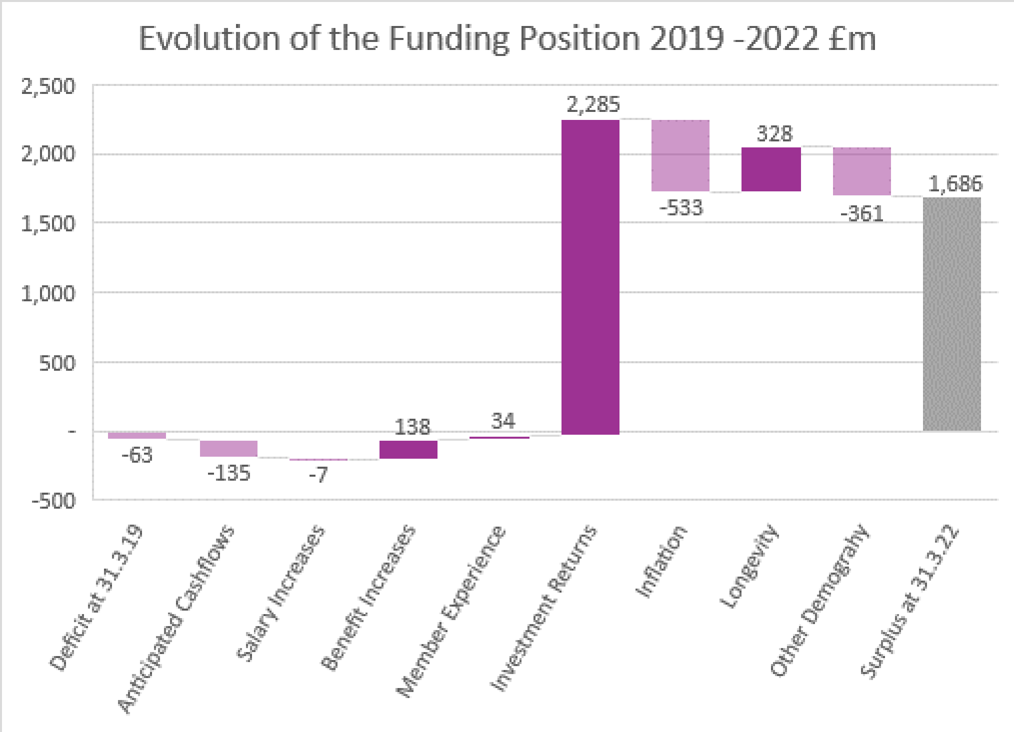
	This Valuation 31st March 2022		Last Valuation 31st March 2019	
Primary Rate	20.3% of pay		16.1% of pay	
Secondary Rate	2023/24	-£18.987m	2021/22	£26.675m
	2024/25	-£17.577m	2021/22	£13.475m
	2025/26	-£15.516m	2022/23	£13.881m

5.7 The primary (future service rate) has increased as a result largely of the cost of future benefits being higher than was assessed in the previous valuation. However, this is offset at whole fund level by the distribution of surplus through the secondary contribution rate (commonly although now inaccurately called deficit contributions). It is important to recognise that the experience of each employer will be different, and some will still have deficits to recover.

5.8 The table below summarises the funding position which looks at the past service liabilities (the focus of the secondary contributions) at the two valuations.

	31st March 2022	31st March 2019
Past Service Liabilities	£bn	£bn
Active Members	3.060	3.005
Deferred Members	1.712	1.657
Pensioners	4.216	3.841
Total Liabilities	**8.988**	**8.503**
Assets	**10.674**	**8.440**
Surplus / (Deficit)	**1.685**	**(0.063)**
Funding Level	**119%**	**99%**

5.9 This is clearly a significant improvement on the position at the last valuation and the graph below shows how the funding level has evolved over the inter-valuation period and a more detailed analysis is at Appendix A. What is clear is that investment returns have driven the improvement in the position more than offsetting a number of other more negative movements.



Employer Experience

5.10 The results at whole fund level translate into the experience of individual employers and their funding positions and contribution rates. The table below sets out the funding levels and deficit recovery periods across employer groups comparing the last valuation and this one.

	2019 Valuation		2022 Valuation	
	Funding Level	Recovery Period	Funding Level	Recovery Period
SYPA	103%	16 years	125%	n/a[1]
LA's	100%	16 years	120%	n/a[1]
F/HE	98%	16 years	119%	n/a[1]
Academies	70%	16 years	93%	10 years[2]
Other	98%	16 years	130%	n/a[1]
Whole Fund	99%	16 years	119%	n/a[1]

1. *The majority of employers are in surplus at the 2022 valuation and so there is no deficit (and so no 'deficit recovery period'). In the small number of cases where employers are still in deficit at the 2022 valuation, the implied deficit recovery period is 10 years. For employers in surplus, recognition of this may have been made when setting the total contribution rate (i.e. by applying a negative secondary rate). In all cases, the period of which any surplus is distributed over future years is greater than the deficit recovery period set at the 2022 valuation (16 years). This is an appropriately prudent approach i.e. deficits are recovered quickly, and surpluses are distributed back to employers slowly. This helps maintain full funding over time and protect the funding position against adverse market events. It is also consistent with the objective of setting stable contributions.*
2. *A time horizon on 16 year applies the determination of Academy rates at the 2022 valuation, i.e. rates are set to ensure each employer is at least 100% funded by 31 March 2038, with a probability of 70%. The equivalent average deficit recovery period is c. 10 years, i.e. the resulting contributions are expected to lead to full funding, on a best estimate basis, by 31 March 2032.*

5.11 This illustrates that each employer group has benefitted from the investment returns achieved, although the higher starting funding levels of longer term employers have benefitted more because of the compounding effect of these returns on previous good returns. Importantly overall, where deficits remain, the implied deficit recovery period has reduced by more than the 3 years that have passed which represents an appropriate level of additional prudence for the Fund.

5.12 In setting contributions for higher risk employers (those in the other category without some form of guarantee) a contribution level floor of the calculated primary rate has generally been used. This provides downside protection for both the employer and the fund in the event of future investment returns not being as good as previously therefore serving to stabilise contributions for these employers. In addition, as many of these employers are in surplus this approach may make the finances of an exit from the Fund easier where this is appropriate and a number of smaller charities have begun discussions of this sort. A more nuanced approach has been taken with some contractors who have significant surpluses and a relatively short remaining contract life. In these cases to avoid the payment of exit credits (i.e. paying over the surplus on termination) contribution reductions or holidays have been allowed in agreement with the Actuary.

Section 13 and the Comparative Position

5.13 In general the funding position across LGPS in England and Wales has improved significantly at this valuation and while SYPA may not be at the top of the funding league table a more mid table approach means that we have not built up an excessive surplus which would arguably mean previous contribution levels had been set too high. Once all the reports have been published the actuarial firms will all be publishing analyses of the results and these will be shared with members when available.

5.14 A more reliable test of the valuation outcome is provided by the Government Actuary's section 13 process which looks at all the valuations and examines each set of results against a range of tests to identify any red flags. While the details of this process are not currently available based on the tests used last time it is not anticipated that SYPA would trigger any red or amber flags.

Conclusion

5.15 While as with any process of this sort there are lessons that can be learnt for next time the results of the 2022 valuation leave the Fund in a fairly strong position to weather the uncertainties in the wider environment going forward.

6 Implications

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

Financial	The costs of undertaking the valuation are contained within the Authority's operating budget.
Human Resources	None
ICT	None
Legal	It is a requirement of the LGPS Regulations to carry out a valuation of the Fund for the purpose of setting employer contribution rates every three years.
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**

HYMANS ROBERTSON

South Yorkshire Pension Fund

Report on the actuarial valuation at 31 March 2022
DRAFT

Douglas Green FFA **Steven Scott FFA**

02 March 2023
For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

Contents

In this report:

Executive Summary

The key result of the valuation of the South Yorkshire Pension Fund as at 31 March 2022 are set out below. Further explanation of the outcomes of the valuation are contained in the remainder of this report.

Contribution rates

The contribution rates for individual employers set at this valuation can be found in the Rates & Adjustments certificate. Table 1 shows the combined individual employer rates set at this valuation and the last valuation (31 March 2019).

Table 1: Whole fund contribution rates compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate	20.3% of pay		16.1% of pay	
Secondary Rate	2023/2024	-£19,259,000	2020/2021	£26,675,000*
	2024/2025	-£17,858,000	2021/2022	£13,475,000*
	2025/2026	-£15,805,000	2022/2023	£13,881,000*

- The Primary rate has increased mainly due to higher inflation
- The Secondary rate has decreased due to good investment performance since the last valuation

*Includes an allowance of 0.7% of pensionable pay

Funding position

At 31 March 2022, the past service funding position has improved from the last valuation at 31 March 2019. Table 2 shows the single reported funding position at the current and previous valuation.

Table 2: Single reported funding position at 31 March 2022 compared with 31 March 2019

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	3,060	3,005
Deferred Pensioners	1,712	1,657
Pensioners	4,216	3,841
Total Liabilities	**8,988**	**8,503**
Assets	**10,674**	**8,440**
Surplus/(Deficit)	**1,685**	**(63)**
Funding Level	**119%**	**99%**

The required investment return to be 100% funded is now 3.5% pa (3.9% pa at 2019). The likelihood of the Fund's investment strategy achieving the required return is 80% (63% at 2019).

Approach to valuation

Valuation Purpose

The triennial actuarial valuation is an important part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

We have been commissioned by South Yorkshire Pensions Authority (the Administering Authority) to carry out a valuation of the South Yorkshire Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report marks the culmination of the valuation process and contains its two key outcomes:

1. Employer contribution rates for the period 1 April 2023 to 31 March 2026.
2. The funding level of the Fund at 31 March 2022.

Further information on the valuation process, methodology and strategy is set out in the publicly available Funding Strategy Statement, Investment Strategy Statement and published papers and minutes of the Fund's Pensions Authority. Additional material is also contained in Hymans Robertson's LGPS 2022 valuation toolkit[1].

[1] www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf

Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable likelihood of having enough money to pay members' benefits. Identifying the amount of benefits that may be paid is complex as those earned today might only start being paid in 50 years' time. Over that time period, there is significant uncertainty over factors which affect the cost of benefits, eg inflation, investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around asset-liability modelling and three key funding decisions set by the Fund.

Key funding decisions

For each employer, the Fund determines the most appropriate choice for the following three funding decisions. Further detail is set out in the Funding Strategy Statement.

What is the funding target for each employer?
Will the employer remain in the Fund for the long-term or exit at some point

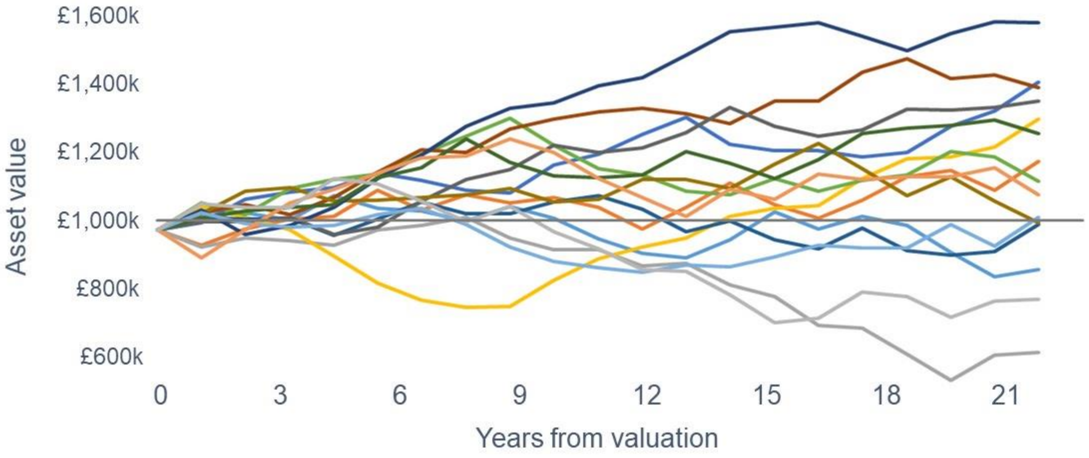
What is the funding time horizon?
How long will the employer participate in the Fund

What is the required likelihood?
How much funding risk can the employer's covenant support

Modelling approach

Asset-liability modelling is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios. The economic scenarios are generated using Hymans Robertson's Economic Scenario Service (ESS) (further information in Appendix 2).

Picture 1: sample progression of employer asset values under different economic scenarios



Measuring the funding level

The past service funding level is measured at the valuation. Whilst it is limited in providing insight to a funding plan, it is a useful high-level summary statistic. To measure the funding position, a market-related approach is taken to calculating both the assets and the liabilities (so they are consistent with each other).

- The market value of the Fund's assets at the valuation date have been used.
- The liabilities have been valued using assumptions based on market indicators at the valuation date (these assumptions are detailed in Appendix 2).

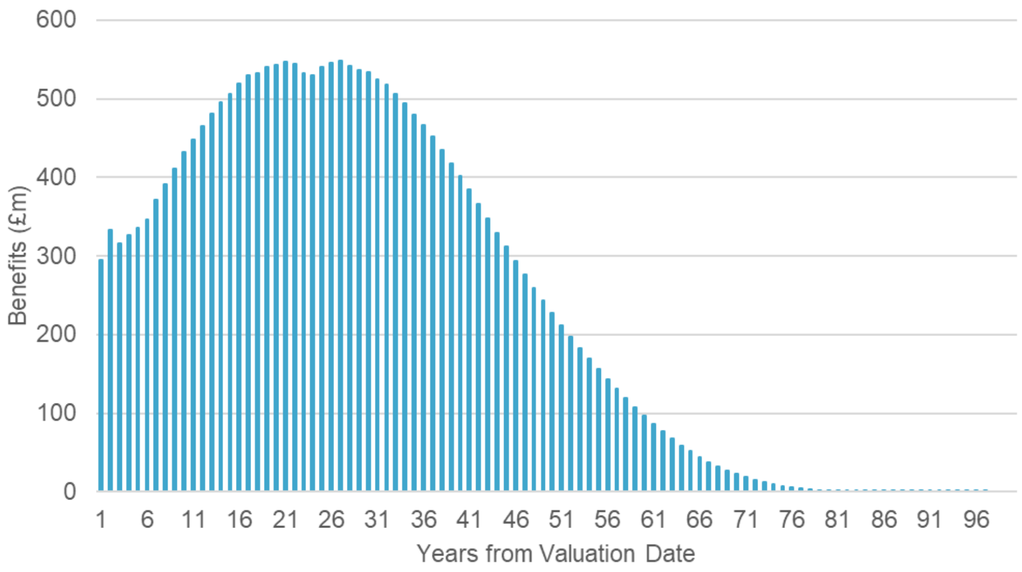
Further detail on the liabilities

The liabilities are the value of all future payments to members based on all benefits earned up to the valuation date, expressed in today's money.

Chart 1 shows the projected payments for all members in the Fund at the valuation date. The projections are based on the membership data provided for the valuation (Appendix 1), the assumptions (Appendix 2) and our understanding of the LGPS benefit structure as at 31 March 2022 (details at www.lgpsregs.org).

To express the future payments in today's money, the projections are discounted with an assumed future investment return on the Fund's assets (the discount rate).

Chart 1: projected benefit payments for all service earned up to 31 March 2022



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Valuation results

Employer contribution rates

The primary objective of the Fund is to set employer contribution rates that will adequately cover the cost of benefits which will accrue in the future and any costs related to benefits already earned. A secondary objective is to ensure the rates are as stable as possible. The risk-based approach detailed earlier is used to meet both these objectives.

The employer contribution rate is made up of two components.

1. A primary rate: the level sufficient to cover all new benefits
2. A secondary rate: the costs associated with sufficiently funding benefits accrued up to the valuation date

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Each employer has a contribution rate which is appropriate to their circumstances and these can be found in the Rates & Adjustments Certificate. Broadly speaking:

- Primary rates have increased since the last valuation due to rising inflation.
- Secondary rates have decreased due to strong investment performance since the previous valuation.

However all employers will be different and the contribution rate will reflect the membership and experiences of each employer.

Table 3 shows the total of all employer contribution rates to be paid into the Fund over the period 1 April 2023 to 31 March 2026

Table 3: Whole-fund contribution rate, compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate	20.3% of pay		16.1% of pay	
Secondary Rate	2023/2024	-£19,259,000	2020/21	£26,675,000*
	2024/2025	-£17,858,000	2021/22	£13,475,000*
	2025/2026	-£15,805,000	2022/23	£13,881,000*

The primary rate includes an allowance of 0.5% of pensionable pay for the Fund's expenses (0.5% at 31 March 2019).

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.5% of pay (6.4% at 31 March 2019).

*Includes an allowance of 0.7% of pensionable pay

Funding level

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date are known. The value of the liabilities is uncertain given that the level of future investment returns are unknown.

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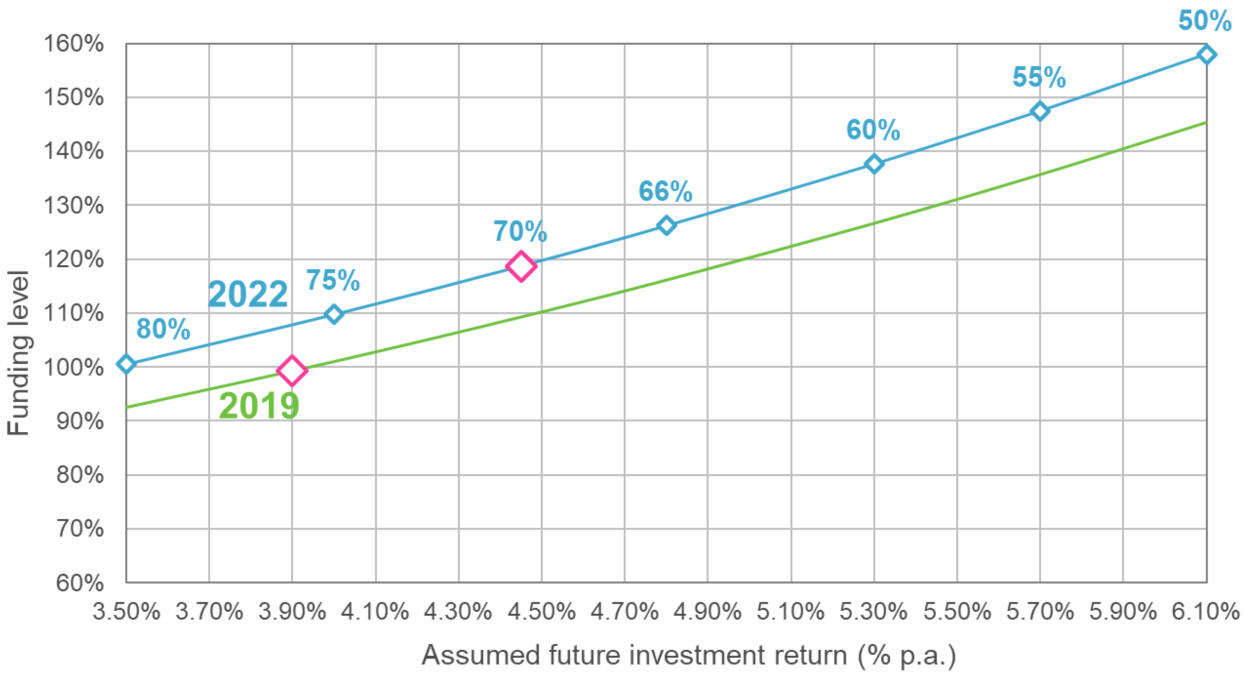
Therefore, the liabilities and funding level have been calculated across a range of different investment returns (the discount rate).

To help better understand funding risk, the likelihood of the Fund's investment strategy (detailed in Appendix 1) achieving certain levels of return has also been calculated.

Chart 2 shows how the funding level varies with future investment return assumptions at 31 March 2022 (blue line). The green line shows the same analysis at 31 March 2019.

- **The funding position at 2022 is stronger than 2019.**
- **The funding level is 100% if future investment returns are c.3.5% pa. The likelihood of the Fund's assets yielding at least this return is around 80%.**
- **The comparator at 2019 was a return of 3.9% pa which had a likelihood of 63%.**
- **There is a 50% likelihood of an investment return of 6.1% pa. So the best-estimate funding level is 158% at 31 March 2022.**



Figures on each line show the likelihood of the Fund's assets exceeding that return at the valuation date

Single funding level as at 31 March 2022

Whilst the chart on the previous page provides a better understanding of the past service funding position, there is still a requirement to report a single funding level at 31 March 2022.

To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.45% pa has been used. There is a 70% likelihood associated with a future investment return of 4.45% pa.

Table 4 details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position of the Fund as at 31 March 2022, however there are limitations:

- The liabilities are calculated using a single set of assumptions about the future and so are very sensitive to the choice of assumptions.
- The market value of assets held by the Fund will change on a daily basis.

The future progression of the funding position is uncertain. If the financial and demographic assumptions made at this valuation actually occur, employers pay contributions in line with the R&A certificate and there are no other changes in the financial or demographic environment, we project that the funding level at the next valuation (31 March 2025) will be approximately 117%.

Table 4: single reported funding level

Valuation Date	This valuation 31 March 2022	Last valuation 31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	3,060	3,005
Deferred Pensioners	1,712	1,657
Pensioners	4,216	3,841
Total Liabilities	**8,988**	**8,503**
Assets	**10,674**	**8,440**
Surplus/(Deficit)	**1,685**	**(63)**
Funding Level	**119%**	**99%**

Important: *the reported funding level does not directly drive the contribution rates for employers. The contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and also reflect each employer's funding profile and covenant.*

Changes since the last valuation

Events between 2019 and 2022

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. The experience analysis below shows that there has sadly been a higher than expected number of deaths over the period. However, the impact on the funding position has been small. This is likely due to the age profile of the excess deaths and the level of pension.

Other significant factors occurring which affect the funding strategy of the Fund have been the better than expected investment returns. This has had a material positive impact on the funding position and employers' secondary contribution rates.

Financial

Table 5: analysis of financial experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
Investment returns				
3 year period	12.2%	28.0%	15.8%	+£1,356m
Annual	3.9% pa	8.6% pa	4.7% pa	

Membership

Table 6: analysis of membership experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early leavers	8,822	21,741	12,919	+£52m
Ill-health retirements	231	160	-71	+£8m
Salary increases	3.0% pa	4.2% pa	1.2% pa	-£63m
Post-retirement				
Benefit increases	2.4% pa	1.8% pa	-0.6% pa	+£138m
Pension ceasing	£17.6m	£19.8m	£2.3m	+£23m

Changes since the last valuation

Future outlook

Expectations about the future, which inform the assumptions used to value the liabilities, have changed since the last valuation. The most significant changes are:

- Future inflation: this is expected to be on average higher than at 2019 due to the current level of high inflation.
- Investment returns: due to changes in the Fund's investment strategy and financial markets, future investment returns are now expected to be higher than at the last valuation.

Table 7: summary of change in future outlook

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back i.e. the discount rate assumption	Future investment returns higher at 2022 than at 2019. The prudent level of returns set for valuing the liabilities is now 4.45% pa vs 3.90% pa at 2019.	Decrease of £929m
Inflation	The rate at which pensions (both in payment and deferment) and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £533m
Salary increases	The rate at which future salaries increase which will affect the benefits that are still linked to final salary i.e. accrued before 1 April 2014	No material change since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	Decrease of £56m
Current life expectancy	How long we expect people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	Decrease of £197m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Decrease of £130m

Reconciling the overall change in funding position

The tables below provide insight into the funding position change between 31 March 2019 and 31 March 2022. Firstly, the changes we expected to happen (Table 8), which relate mostly to items on the asset side. Then the impact of actual experience (Table 9), which mainly affects the liabilities.

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Expected development

Table 8: expected development of funding position between 2019 and 2022 valuations

Change in the surplus/deficit position	Surplus / Deficit
	£m
Last valuation at 31 March 2019	**(63)**
Cashflows	
Employer contributions paid in	593
Employee contributions paid in	189
Benefits paid out	0
Net transfers into / out of the Fund*	14
Other cashflows (e.g. Fund expenses)	(15)
Expected changes	
Expected investment returns	1,041
Interest on benefits already accrued	(1,032)
Accrual of new benefits	(925)
Expected position at 31 March 2022	**(198)**

* We have insufficient data to value the impact on the liabilities as a result of transfers in/out

Impact of actual events

Table 9: impact of actual events on the funding position at 31 March 2022

Change in the surplus/deficit position	Surplus / Deficit
	£m
Expected position at 31 March 2022	**(198)**
Events between 2019 and 2022	
Salary increases greater than expected	(63)
Benefit increases greater than expected	138
Early retirement strain (and contributions)	(15)
Ill health retirement strain	8
Early leavers less than expected	52
Commutation less than expected	(29)
Pensions ceasing less than expected	23
McCloud remedy	(18)
Other membership experience	13
Higher than expected investment returns	1,356
Changes in future expectations	
Investment returns	929
Inflation	(533)
Salary increases	56
Longevity	328
Other demographic assumptions	(361)
Actual position at 31 March 2022	**1,685**

Numbers may not sum due to rounding

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Sensitivity & risk analysis

Sensitivity and risk analysis: assumptions

There is risk and uncertainty inherent with funding benefit payments that will be paid out many years in the future. The Fund is aware of these and has in place a risk register which is regularly reviewed. Additionally, as part of the valuation, the Fund reviews sources of risk that may impact its funding position and the contribution rates payable by employers.

This section discusses some of the most significant sources of funding risk (assumptions, regulatory, administration and governance and climate change). Further information of the Fund's approach to funding risk management, including monitoring, mitigation and management, is set out in the Funding Strategy Statement.

The valuation results depend on the actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means its important to understand their sensitivity and risk levels.

Contribution rates

The risk-based approach to setting employer contribution rates mitigates the limitation of relying on one set of assumptions. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions. The contribution rates are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

Funding level

Financial assumptions

On page 10, we have already set out how the results vary with the assumed future investment return. The table below considers inflation.

Table 10: sensitivity of funding position to inflation assumption

CPI Assumption	Surplus/ (Deficit)	Funding Level
p.a.	£m	%
2.5%	1,952	122%
2.7%	1,685	119%
2.9%	1,409	115%

Demographic assumptions

The main area of demographic risk is if people live longer than expected. The table below shows the impact of longer term longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results)

Table 11: sensitivity of funding position to longevity assumption

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
p.a.	£m	%
1.50%	1,685	119%
1.75%	1,612	118%

Sensitivity and risk analysis: other risks & climate change

Regulatory, Administration and Governance risks
Potential risks in this area include change in central government legislation which changes the future cost of the LGPS and failures in administration processes leading to incorrect data and inaccuracies in actuarial calculations. At this valuation, specific risks include:

- **McCloud:** the remedy to resolve the McCloud case is yet to be formalised in regulations. However, an allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities in their letter dated March 2022[1].
- **Goodwin:** the remedy to this issue is still uncertain, it is difficult to identify who it would apply to and its impact is estimated to be very small for a LGPS fund (0.1-0.2% of liabilities). Therefore, no allowance has been made for this case at the 2022 valuation.
- **Cost Cap:** a legal challenge is still ongoing in relation to the results of the 2016 cost cap valuation and no information is known about the outcome of the 2020 cost cap valuation. At this valuation, no allowance has been made for any changes to the benefit structure that may occur as a result of a cost cap valuation.
- **GMP indexation:** it is assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This is the same approach that was taken for the 2019 valuation.

Post valuation events
Since 31 March 2022, there has been significant volatility in the financial markets, short-term inflation expectations and rises in interest rates by central banks. These events affect the value of the Fund's assets and liabilities.

- The Fund's investment return since 31 March 2022 is estimated to be somewhere between 0% and -5%.
- Liability valuations are likely to be lower now than at 31 March 2022 due to rises in expected future investment returns more than offsetting the higher than expected (10.1%) pension increase at April 2023.

As an open scheme, with a strong covenant, the Fund takes a long-term view when considering the funding impact of such events. For employers who have a very short time horizon, recent volatility may be more immediately impactful, and the Fund has engaged with these employers as appropriate.

No explicit allowance has been made for this volatility in the valuation results or contribution rates detailed in the Rates & Adjustments Certificate. The Fund will continue to monitor changes in the financial and demographic environment as part of its ongoing risk management approach.

1 www.lgpslibrary.org/assets/bulletins/2022/222AppA.pdf

Sensitivity and risk analysis: climate change & post valuation events

Background
Climate change is a major source of uncertainty which could affect future investment returns, inflation and life expectancies. Therefore, the Fund has explicitly explored the resilience of its funding and investment strategy to future potential climate change outcomes.

It is impossible to confidently quantify the effect of climate risk given the significant uncertainty over the impact of different possible climate outcomes. Instead, three different climate change scenarios have been considered as a stress-test (instead of trying to predict how climate change affects the funding level in the future).

All the scenarios assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be.

Further detail on the scenarios is shown on the next page and in our guide 10 of Hymans Robertson's LGPS 2022 valuation toolkit[1]

Outcome of analysis
The Fund has set its funding and investment strategy using asset-liability modelling and considering two main risk metrics:

- Likelihood of success – the chance of being fully funded in 20 years' time
- Downside risk – the average worst 5% of funding levels in 20 years' time

When exploring the potential impact of climate change, the Fund has compared how these risk metrics change under each climate change scenario (against the '*Core*' model used when setting the funding and investment strategy). The stress test results for the Fund are shown in Table 12 below.

Scenario	Likelihood of success	Downside risk
Core	**72%**	**43%**
Green Revolution	71%	38%
Delayed Transition	71%	45%
Head in the Sand	71%	42%

The results are worse in the climate scenarios. This is to be expected given that they are purposefully stress-tests and all the scenarios are bad outcomes. Whilst the risk metrics are weaker, they are not materially so and not enough to suggest that the funding and investment strategy are unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate change modelling techniques evolve.

[1] www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf

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Final comments

Final comments

The Fund's valuation operates within a broader framework, and this document should be considered alongside the following:

- The Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated
- The Investment Strategy Statement, which sets out the investment strategy for the Fund
- The general governance of the Fund, such as meetings of the Pensions Authority and Local Pensions Board, decisions delegated to officers, the Fund's business plan, etc
- The Fund's risk register

New employers joining the Fund
Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary to assess the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

Cessations and bulk transfers
Any employer who ceases to participate in the Fund should be referred to the Fund Actuary in accordance with Regulation 64 of the LGPS regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement

should be referred to the Fund Actuary to consider the impact on the Fund.

Valuation frequency
Under the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2025 where contribution rates payable from 1 April 2026 will be set.

SIGNATURE

Douglas Green FFA

SIGNATURE

Steven Scott FFA

02 March 2023

For and on behalf of Hymans Robertson LLP

HYMANS ROBERTSON

Appendices

APPENDIX 1

Data

Membership data
A summary of the membership data provided by the Fund for the 2022 valuation is set out in Table 13. The corresponding membership data from the previous valuation is also shown for reference.

The results of the valuation are dependent on the quality of the data used. We have carried out a series of validation checks on the data supplied to us by the Administering Authority to ensure that it is fit for purpose.

More information on how we verify the quality of the data used in the valuation has been shared with the Administering Authority in our report 'Data Report for the 2022 Valuation'.

Asset data
To check the membership data and derive employer asset values, we have used asset and accounting data and employer level cashflow data provided by the Fund.

Table 13: Whole fund membership data as at 31 March 2022 and 31 March 2019

Whole Fund Membership Data	This Valuation 31 March 2022	Last Valuation 31 March 2019
Employee members		
Number	49,643	50,518
Total actual pay (£000)	1,012,765	925,750
Total accrued pension (£000)	195,514	178,103
Average age (liability weighted)	50.6	51.0
Future working lifetime (years)	9.3	11.5
Deferred pensioners (including undecideds)		
Number	81,305	66,488
Total accrued pension (£000)	104,183	90,176
Average age (liability weighted)	51.3	50.5
Pensioners and dependants		
Number	60,075	52,555
Total pensions in payment (£000)	270,230	234,915
Average age (liability weighted)	68.4	67.9

APPENDIX 1

Data

Investment strategy

A summary of the investment strategy allocation used for the calculation of employer contribution rates and to derive the future assumed investment return is set out in Table 14.

This information is as set out in the Fund's Investment Strategy Statement.

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Table 14: Investment strategy used for the 2022 valuation

% allocation	Core Strategy
UK equities	10.0%
Global equities	35.0%
Private equity	7.0%
Infrastructure	10.0%
Property	10.0%
Private debt	5.5%
UK Index-linked gilts	10.0%
Corporate bonds	5.0%
Multi Asset Credit	6.0%
Cash	1.5%
Total	**100.0%**

APPENDIX 2

Assumptions

To set and agree assumptions for the valuation, the Fund carried out in-depth analysis and review in February 2022 with the final set agreed by the Pensions Authority on 17 March 2022.

Financial assumptions

Setting employer contribution rates

An asset-liability model is used to set employer contributions at the 2022 valuation. This model relies on Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS reflects the uncertainty associated with future levels of inflation and asset returns and the interactions and correlations between different asset classes and wider economic variables. In the short term (first few years), the models are fitted with current financial market expectations. Over the longer term, models are built around views of fundamental economic parameters, for example equity risk premium, credit spreads and long term inflation. The table below shows the calibration of the ESS at 31 March 2022. Further information on the assumptions used for contribution rate setting is included in the Funding Strategy Statement.

Table 15: ESS individual asset class return distributions at 31 March 2022

		Asset class annualised total returns									Inflation/Yields		
Time period	Percentile	Cash	Index Linked Gilts (medium)	UK Equity	Private Equity	Property	Listed Infrastructure Equity	Multi Asset Credit	Global High Yield Debt	All World ex UK Equity	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th	0.8%	-1.9%	-0.4%	-1.2%	-0.6%	-1.1%	1.7%	0.6%	-0.4%	1.6%	-1.7%	1.1%
	50th	1.8%	0.2%	5.7%	9.4%	4.4%	4.9%	3.5%	3.4%	5.8%	3.3%	-0.5%	2.5%
	84th	2.9%	2.4%	11.6%	20.1%	9.5%	10.9%	5.2%	5.8%	11.9%	4.9%	0.7%	4.3%
20 years	16th	1.0%	-1.5%	1.7%	2.4%	1.4%	1.2%	2.8%	2.1%	1.8%	1.2%	-0.7%	1.3%
	50th	2.4%	0.1%	6.2%	10.0%	5.0%	5.6%	4.4%	4.2%	6.3%	2.7%	1.1%	3.2%
	84th	4.0%	1.9%	10.6%	17.6%	8.9%	10.1%	6.0%	6.4%	11.1%	4.3%	2.7%	5.7%
40 years	16th	1.2%	-0.3%	3.2%	4.7%	2.6%	2.6%	3.6%	3.1%	3.4%	0.9%	-0.6%	1.1%
	50th	2.9%	1.2%	6.7%	10.3%	5.5%	6.1%	5.3%	5.1%	6.8%	2.2%	1.3%	3.3%
	84th	4.9%	3.1%	10.2%	16.1%	8.8%	9.8%	7.1%	7.2%	10.4%	3.7%	3.2%	6.1%
	Volatility (5yr)	2%	7%	18%	30%	15%	18%	6%	8%	18%	3%	-	-

APPENDIX 2

Assumptions

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Financial assumptions

Calculating the funding level

The table below summarises the assumptions used to calculate the funding level at 31 March 2022, along with a comparison at the last valuation.

Table 16: Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	This valuation 31 March 2022	Required for	Last valuation 31 March 2019
Discount rate	4.45% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 70% likelihood of returning above the discount rate.	3.90% pa
Benefit increases / CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.4% pa
Salary increases	3.3% pa	To determine the size of future final-salary linked benefit payments.	3.6% pa

Allowing for the McCloud remedy

Allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities in their letter dated March 2022[1]. Further technical detail about this assumption is set out in guide 13 of Hymans Robertson's LGPS 2022 valuation toolkit[2]

[1] www.lgpslibrary.org/assets/bulletins/2022/222AppA.pdf

[2] www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf

APPENDIX 2

Assumptions

Demographic assumptions

The same demographic assumptions are used in setting contribution rates and assessing the current funding level.

Longevity

Table 17: Summary of longevity assumptions

	This valuation 31 March 2022	Last valuation 31 March 2019
Baseline assumption	VitaCurves based on member-level lifestyle factors	S3PA, S3DA and S3IA tables with appropriate weighting*
Future improvements	**CMI 2021 model** Initial addition = **0.25% (both Female and Male)** Smoothing factor = **7.0** **1.5% pa** long-term rate of improvement	**CMI 2018 model** Initial addition = **0% (both Female and Male)** Smoothing factor = **7.5** **1.75% pa** long-term rate of improvement

Further information on these assumptions can be provided upon request. Sample rates are included on the next page.

Other demographic assumptions

Table 18: Summary of other demographic assumptions

Death in service	See sample rates in Tables 19 & 20
Retirements in ill health	See sample rates in Tables 19 & 20
Withdrawals	See sample rates in Tables 19 & 20
Promotional salary increases	See sample rates in Tables 19 & 20
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option (main scheme) if they are currently in the main scheme (50:50 scheme).
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Proportion married	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.

*Further details available in 2019 valuation report

APPENDIX 2

Assumptions

Sample rates for demographic assumptions

Males

Table 19: Sample rates of male demographic assumptions

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	242.58	487.81	0.00	0.00	0.00	0.00
25	117	0.17	160.24	322.22	0.00	0.00	0.00	0.00
30	131	0.20	113.69	228.58	0.00	0.00	0.00	0.00
35	144	0.24	88.83	178.58	0.10	0.07	0.02	0.01
40	150	0.41	71.52	143.73	0.16	0.12	0.03	0.02
45	157	0.68	67.18	134.98	0.35	0.27	0.07	0.05
50	162	1.09	55.38	111.14	0.90	0.68	0.23	0.17
55	162	1.70	43.61	87.56	3.54	2.65	0.51	0.38
60	162	3.06	38.87	78.01	6.23	4.67	0.44	0.33
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

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Females

Table 20: Sample rates of female demographic assumptions

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.10	211.45	280.42	0.00	0.00	0.00	0.00
25	117	0.10	142.28	188.66	0.10	0.07	0.02	0.01
30	131	0.14	119.27	158.13	0.13	0.10	0.03	0.02
35	144	0.24	102.94	136.43	0.26	0.19	0.05	0.04
40	150	0.38	85.67	113.51	0.39	0.29	0.08	0.06
45	157	0.62	79.95	105.91	0.52	0.39	0.10	0.08
50	162	0.90	67.41	89.19	0.97	0.73	0.24	0.18
55	162	1.19	50.30	66.62	3.59	2.69	0.52	0.39
60	162	1.52	40.53	53.62	5.71	4.28	0.54	0.40
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

Figures are incidence rates per 1,000 members except salary scale. FT and PT denoted full-time and part-time members respectively.

APPENDIX 3

Reliances and limitations

We have been commissioned by South Yorkshire Pensions Authority(‘the Administering Authority’) to carry out a full actuarial valuation of the South Yorkshire Pension Fund (‘the Fund’) at 31 March 2022, as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (‘the Regulations’).

This report is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of summarising the main outcomes of the 2022 actuarial valuation. It has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

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This summary report is the culmination of other communications in relation to the valuation, in particular:

- Our 2022 valuation toolkit which sets out the methodology used when reviewing funding plans
- Our paper to the Fund’s Pension Authority dated March 2022 which discusses the funding strategy for the major employers
- Our paper to the Fund’s Pension Authority dated February 2022 which discusses the valuation assumptions
- Our initial results report dated September 2022 which outlines the whole fund results and inter-valuation experience
- Our data report which summarises the data used for the valuation, the approach to ensuring it is fit for purpose and any adjustments made to it during the course of the valuation
- The Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100 – Principles for technical actuarial work
- TAS300 – Pensions

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APPENDIX 4

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.

APPENDIX 4

Glossary

Term	Explanation
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different ‘basket’ of goods and mathematical formulas.
Liabilities	An employer’s liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

Rates & adjustments certificate

Rates and Adjustments Certificate

In accordance with Regulation 62 of the LGPS regulations, we have assessed the contributions that should be paid into the South Yorkshire Pension Fund (the Fund) by participating employers for the period 1 April 2023 to 31 March 2026 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in this Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated March 2023 and in Appendix 2 of the report on the actuarial valuation dated 31 March 2023. These assumptions underpin our estimate of the number of members who will become entitled to a payment of pensions under the provisions of the LGPS and the amount of liabilities arising in respect of such members.

The table below summarises the whole fund primary and secondary contribution rates for the period 1 April 2023 to 31 March 2026. The primary rate is the payroll weighted average of the underlying individual employer primary rates and the secondary rate is the total of the underlying individual employer secondary rates, calculated in accordance with the LGPS regulations and CIPFA guidance. The secondary rate has been shown both as a monetary amount and an equivalent percentage of the projected pensionable pay.

		This valuation 31 March 2022	
Primary rate		20.3% of pay	
Secondary rate		Monetary amount	Equivalent to % of payroll
	2023/24	-£19,259,000	-1.8%
	2024/25	-£17,858,000	-1.6%
	2025/26	-£15,805,000	-1.3%

The required minimum contribution rates for each employer in the Fund are set out in the remainder of this certificate.

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Major Employers									
	Barnsley MBC	20.0%	-2.9%	-2.9%	-2.9%	17.1%	17.1%	17.1%	
	Doncaster MBC	20.3%	-4.0%	-4.0%	-4.0%	16.3%	16.3%	16.3%	
	Rotherham MBC	20.4%	-3.1%	-3.1%	-3.1%	17.3%	17.3%	17.3%	
	Sheffield City Council	20.2%	-2.7%	-2.7%	-2.7%	17.5%	17.5%	17.5%	1
296	South Yorkshire Fire Authority	19.5%	-3.5%	-2.5%	-1.5%	16.0%	17.0%	18.0%	
295	The Chief Constable	19.7%	-2.1%	-0.6%	0.9%	17.6%	19.1%	20.6%	
297	The Police and Crime Commissioner	19.7%	-3.1%	-1.6%	-0.1%	16.6%	18.1%	19.6%	
	South Yorkshire Passenger Transport Executive	19.8%	-8.4%	-7.4%	-6.4%	11.4%	12.4%	13.4%	
250	South Yorkshire Pensions Authority	19.0%	-4.6%	-4.6%	-4.6%	14.4%	14.4%	14.4%	
905	South Yorkshire Mayoral Combined Authority	19.8%	-8.4%	-7.4%	-6.4%	11.4%	12.4%	13.4%	
220	Barnsley College	19.2%	-0.6%	£79,000	£219,000	18.6%	19.2% plus £79,000	19.2% plus £219,000	
	DN Colleges Group	20.5%	-4.6%	-3.1%	-1.6%	15.9%	17.4%	18.9%	
232	R N N Group	19.9%	-2.2%	-0.2%	£184,000	17.7%	19.7%	19.9% plus £184,000	
224	Sheffield Hallam University	19.2%	0.6%	1.6%	2.6%	19.8%	20.8%	21.8%	
222	The Sheffield College	19.9%	-4.3%	-2.8%	-1.3%	15.6%	17.1%	18.6%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Town and Parish Councils									
254	Brodsworth Parish Council	23.2%	0.1%	0.1%	0.1%	23.3%	23.3%	23.3%	
305	Penistone Town Council	19.5%				19.5%	19.5%	19.5%	
329	Silkstone Parish Council	23.1%				23.1%	23.1%	23.1%	
404	Askern Town Council	19.5%				19.5%	19.5%	19.5%	
405	Barnby Dun with Kirk Sandall Parish Council	19.8%				19.8%	19.8%	19.8%	
406	Edlington Town Council	23.4%				23.4%	23.4%	23.4%	
407	Hatfield Town Council	23.2%				23.2%	23.2%	23.2%	
408	Rossington Parish Council	22.5%				22.5%	22.5%	22.5%	
409	Stainforth Town Council	17.6%	23.2%	23.2%	23.2%	40.8%	40.8%	40.8%	
410	Thorne Moorends Town Council	20.2%				20.2%	20.2%	20.2%	
411	Sprotbrough & Cusworth Parish Council	18.8%				18.8%	18.8%	18.8%	
423	Armthorpe Parish Council	20.5%				20.5%	20.5%	20.5%	
509	Anston Parish Council	21.0%				21.0%	21.0%	21.0%	
510	Thrybergh Parish Council	22.3%	1.7%	1.7%	1.7%	24.0%	24.0%	24.0%	
512	Aston-cum-Aughton Parish Council	22.0%				22.0%	22.0%	22.0%	
515	Wickersley Parish Council	22.0%				22.0%	22.0%	22.0%	
660	Bradfield Parish Council	20.3%				20.3%	20.3%	20.3%	
661	Ecclesfield Parish Council	20.8%				20.8%	20.8%	20.8%	
662	Stocksbridge Town Council	23.1%				23.1%	23.1%	23.1%	
917	Dalton Parish Council	22.8%				22.8%	22.8%	22.8%	
999	Waverley Community Council	21.9%	0.1%	0.1%	0.1%	22.0%	22.0%	22.0%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Academy Pools									
	Academies Enterprise Trust	19.7%	13.0%	13.0%	13.0%	32.7%	32.7%	32.7%	
	Aston Community Education Trust	20.3%	4.4%	4.4%	4.4%	24.7%	24.7%	24.7%	
	Astrea Academy Trust	19.5%	4.5%	4.5%	4.5%	24.0%	24.0%	24.0%	
	Brigantia Learning Trust	19.9%	6.0%	6.0%	6.0%	25.9%	25.9%	25.9%	
	Brighter Futures Learning Partnership Trust	20.8%	1.4%	1.4%	1.4%	22.2%	22.2%	22.2%	
	Cascade Multi Academy Trust	20.1%	0.4%	0.4%	0.4%	20.5%	20.5%	20.5%	
	Central Learning Partnership Trust	20.4%	2.1%	2.1%	2.1%	22.5%	22.5%	22.5%	
	Chorus Education Trust	20.8%	0.6%	0.6%	0.6%	21.4%	21.4%	21.4%	
	Consilium Academies Trust	17.0%	2.7%	2.7%	2.7%	19.7%	19.7%	19.7%	
	De la Salle	21.9%	-3.1%	-3.1%	-3.1%	18.8%	18.8%	18.8%	
	Delta Academies Trust	20.6%	2.6%	2.6%	2.6%	23.2%	23.2%	23.2%	
	E-ACT	19.9%	-4.5%	-4.5%	-4.5%	15.4%	15.4%	15.4%	
	Emmanuel Schools Foundation	20.8%	-3.1%	-3.1%	-3.1%	17.7%	17.7%	17.7%	
	Empowering Minds Academy Trust	21.1%	4.8%	4.8%	4.8%	25.9%	25.9%	25.9%	
	Exceed Learning Partnership	20.4%	3.8%	3.8%	3.8%	24.2%	24.2%	24.2%	2
	Five Rivers Multi Academy Trust	19.6%	6.5%	6.5%	6.5%	26.1%	26.1%	26.1%	
	Holy Spirit Umbrella Trust	21.3%	3.6%	3.6%	3.6%	24.9%	24.9%	24.9%	
	Hoyland Common Academy Trust	20.0%	0.3%	0.3%	0.3%	20.3%	20.3%	20.3%	
	Inspire Multi Academy Trust	19.7%	-3.3%	-3.3%	-3.3%	16.4%	16.4%	16.4%	
	Interaction and Communication Academy Trust Ltd	19.1%	2.9%	2.9%	2.9%	22.0%	22.0%	22.0%	

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Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Academy Pools cont'd									
	James Montgomery Trust	20.6%	0.2%	0.2%	0.2%	20.8%	20.8%	20.8%	
	Koinonia Academy Trust	21.5%	7.2%	7.2%	7.2%	28.7%	28.7%	28.7%	
	L.E.A.D	21.2%	10.6%	10.6%	10.6%	31.8%	31.8%	31.8%	
	Leaders in Learning	20.3%	9.5%	9.5%	9.5%	29.8%	29.8%	29.8%	
	Learners Trust	20.1%	8.2%	8.2%	8.2%	28.3%	28.3%	28.3%	
	Leger Education Trust	20.9%	1.8%	1.8%	1.8%	22.7%	22.7%	22.7%	
	Maltby Learning Trust	19.8%	-1.8%	-1.8%	-1.8%	18.0%	18.0%	18.0%	
	Minerva Learning trust	20.5%	5.6%	5.6%	5.6%	26.1%	26.1%	26.1%	
	New Collaborative Learning Trust	20.8%				20.8%	20.8%	20.8%	3
	NEXUS Multi Academy Trust	19.8%	-0.4%	-0.4%	-0.4%	19.4%	19.4%	19.4%	
	Northern Education Trust (NET)	20.4%	0.6%	0.6%	0.6%	21.0%	21.0%	21.0%	
	Oasis Community Learning	18.2%	-0.6%	-0.6%	-0.6%	17.6%	17.6%	17.6%	
	Our Lady of Doncaster Umbrella Trust	21.1%	5.5%	5.5%	5.5%	26.6%	26.6%	26.6%	
	Our Lady Seat of Wisdom Umbrella Trust	20.7%	4.4%	4.4%	4.4%	25.1%	25.1%	25.1%	
	Our Lady's	20.6%	3.3%	3.3%	3.3%	23.9%	23.9%	23.9%	
	Outwood Grange Academies Trust	20.7%	3.2%	3.2%	3.2%	23.9%	23.9%	23.9%	
	Peak Edge MAT	21.1%	-2.1%	-2.1%	-2.1%	19.0%	19.0%	19.0%	
	Pioneer Academies Community Trust	21.4%	2.5%	2.5%	2.5%	23.9%	23.9%	23.9%	
	Sheffield South East Trust	20.9%	5.9%	5.9%	5.9%	26.8%	26.8%	26.8%	
	St Clare MAT	20.9%	0.1%	0.1%	0.1%	21.0%	21.0%	21.0%	
	St Francis MAT	21.7%	2.8%	2.8%	2.8%	24.5%	24.5%	24.5%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Academy Pools cont'd									
	St Mary's Academy Trust	20.8%	6.4%	6.4%	6.4%	27.2%	27.2%	27.2%	
	Steel City Schools Partnership	20.5%	4.4%	4.4%	4.4%	24.9%	24.9%	24.9%	
	Tapton School Academy Trust	20.0%	2.8%	2.8%	2.8%	22.8%	22.8%	22.8%	
	The Grange Trust	21.4%	10.4%	10.4%	10.4%	31.8%	31.8%	31.8%	
	The Hallam Schools' Partnership Academy Trust	21.7%	5.6%	5.6%	5.6%	27.3%	27.3%	27.3%	
	The Rose Learning Trust	20.3%	5.4%	5.4%	5.4%	25.7%	25.7%	25.7%	
	United Learning Trust	19.6%	0.0%	0.0%	0.0%	19.6%	19.6%	19.6%	
	Venn Academy trust	21.1%	-2.9%	-2.9%	-2.9%	18.2%	18.2%	18.2%	
	Wellspring Academy Trust	18.7%	2.6%	2.6%	2.6%	21.3%	21.3%	21.3%	
	White Woods Primary Academy Trust	20.8%	6.8%	6.8%	6.8%	27.6%	27.6%	27.6%	
	Wickersley Partnership Trust	20.2%	3.9%	3.9%	3.9%	24.1%	24.1%	24.1%	
	Willow Tree Academy	20.7%	3.6%	3.6%	3.6%	24.3%	24.3%	24.3%	
	XP Trust	19.8%	1.7%	1.7%	1.7%	21.5%	21.5%	21.5%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Other Academies									
229	The Hayfield School	21.1%	-6.0%	-6.0%	-6.0%	15.1%	15.1%	15.1%	
246	University Technology College (Sheffield)	19.8%	-0.9%	-0.9%	-0.9%	18.9%	18.9%	18.9%	
348	Upperwood Academy	20.8%	0.6%	0.6%	0.6%	21.4%	21.4%	21.4%	
356	Heather Garth Primary School	21.0%	7.9%	7.9%	7.9%	28.9%	28.9%	28.9%	
371	Sandhill Primary School	20.5%	9.5%	9.5%	9.5%	30.0%	30.0%	30.0%	
373	Laithes Primary School	20.6%	2.0%	2.0%	2.0%	22.6%	22.6%	22.6%	
375	High View Primary Learning Centre	20.4%	7.6%	7.6%	7.6%	28.0%	28.0%	28.0%	
376	Wombwell Park Street Primary School	19.9%	3.8%	3.8%	3.8%	23.7%	23.7%	23.7%	
377	Hoyland Springwood Primary School	21.4%	4.5%	4.5%	4.5%	25.9%	25.9%	25.9%	
383	Wellgate Primary School	21.1%	5.9%	5.9%	5.9%	27.0%	27.0%	27.0%	
384	Kexborough Primary School	20.9%	5.4%	5.4%	5.4%	26.3%	26.3%	26.3%	
435	Auckley Junior & Infant Academy	21.0%	2.5%	2.5%	2.5%	23.5%	23.5%	23.5%	
442	The Academy at Ridgewood Trust	20.0%	4.9%	4.9%	4.9%	24.9%	24.9%	24.9%	
443	Conisbrough Ivanhoe Primary Academy	19.8%	2.9%	2.9%	2.9%	22.7%	22.7%	22.7%	
453	St Oswalds C of E Academy	21.5%				21.5%	21.5%	21.5%	
454	Armthorpe Shaw Wood Academy	21.0%	2.9%	2.9%	2.9%	23.9%	23.9%	23.9%	
530	Brinsworth Academy	19.9%				19.9%	19.9%	19.9%	
531	Wales High School (Academy Trust)	21.2%	-2.7%	-2.7%	-2.7%	18.5%	18.5%	18.5%	
566	Wickersley St Albans C of E Primary School	21.5%	5.3%	5.3%	5.3%	26.8%	26.8%	26.8%	
570	Aston All Saints C of E School	21.4%	7.3%	7.3%	7.3%	28.7%	28.7%	28.7%	
571	Dinnington High School	20.9%	2.8%	2.8%	2.8%	23.7%	23.7%	23.7%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Other Academies cont'd									
572	Trinity Croft C of E Primary Academy	20.7%	3.4%	3.4%	3.4%	24.1%	24.1%	24.1%	
575	Thrybergh Fullerton Primary	20.9%	3.2%	3.2%	3.2%	24.1%	24.1%	24.1%	
576	Flanderwell Primary School	20.8%	2.9%	2.9%	2.9%	23.7%	23.7%	23.7%	
606	All Saints Catholic High School	21.1%	-4.0%	-4.0%	-4.0%	17.1%	17.1%	17.1%	
607	St Anns RC Primary School	20.7%	-5.3%	-5.3%	-5.3%	15.4%	15.4%	15.4%	
609	Clifford All Saints C of E School	19.6%	0.8%	0.8%	0.8%	20.4%	20.4%	20.4%	
611	St Theresas RC School	21.1%	-6.8%	-6.8%	-6.8%	14.3%	14.3%	14.3%	
613	Totley All Saints C of E School	22.6%				22.6%	22.6%	22.6%	
614	Broomhill Infant School	21.8%	-3.0%	-3.0%	-3.0%	18.8%	18.8%	18.8%	
654	Meadowhead School Academy Trust	19.6%	1.3%	1.3%	1.3%	20.9%	20.9%	20.9%	
658	King Ecgbert School	20.5%	2.9%	2.9%	2.9%	23.4%	23.4%	23.4%	
701	Fir Vale School Academy Trust	19.4%	-0.3%	-0.3%	-0.3%	19.1%	19.1%	19.1%	
724	Totley Primary School	19.9%	3.9%	3.9%	3.9%	23.8%	23.8%	23.8%	
729	Newfield Secondary School	21.2%	5.6%	5.6%	5.6%	26.8%	26.8%	26.8%	
738	St Marys C of E Academy (Walkley)	21.6%	4.5%	4.5%	4.5%	26.1%	26.1%	26.1%	
744	Emmanuel Junior School	20.8%	7.5%	7.5%	7.5%	28.3%	28.3%	28.3%	
746	Valley Park Community Primary	20.5%	7.7%	7.7%	7.7%	28.2%	28.2%	28.2%	
750	Nether Edge Primary Academy	20.4%	4.3%	4.3%	4.3%	24.7%	24.7%	24.7%	
831	Rossington St Michaels C of E Primary School	19.8%	5.0%	5.0%	5.0%	24.8%	24.8%	24.8%	
846	Treeton C of E Primary Academy	21.0%	8.2%	8.2%	8.2%	29.2%	29.2%	29.2%	
859	Kilnhurst St Thomas C of E Primary Academy	20.7%	6.4%	6.4%	6.4%	27.1%	27.1%	27.1%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Other Academies cont'd									
863	Diocese of Sheffield Academies Trust	19.5%				19.5%	19.5%	19.5%	
883	Canon Popham C of E Primary & Nursery School	21.5%	15.5%	15.5%	15.5%	37.0%	37.0%	37.0%	
900	Mercia School	18.6%				18.6%	18.6%	18.6%	
920	Mercia Learning Trust MAT HQ	18.2%				18.2%	18.2%	18.2%	
922	Pye Bank C of E School	20.9%				20.9%	20.9%	20.9%	
941	Laughton All Saints C of E Primary	21.8%	1.0%	1.0%	1.0%	22.8%	22.8%	22.8%	
987	Athersley South Primary	21.2%				21.2%	21.2%	21.2%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Community Admission Bodies									
201	Danum Drainage Commissioners	25.5%				25.5%	25.5%	25.5%	
204	Action Housing & Support Ltd	23.7%				23.7%	23.7%	23.7%	
209	National Horseracing College	33.5%	£6,000	£6,000	£6,000	33.5% plus £6,000	33.5% plus £6,000	33.5% plus £6,000	
214	South Yorkshire Housing Association	34.2%	£9,000	£9,000	£9,000	34.2% plus £9,000	34.2% plus £9,000	34.2% plus £9,000	
226	Northern College	24.7%	6.2%	6.2%	6.2%	30.9%	30.9%	30.9%	
228	Barnsley Premier Leisure	21.0%				21.0%	21.0%	21.0%	
230	Doncaster Community Transport	31.4%				31.4%	31.4%	31.4%	
231	Roth Don and South Humber Mental Health NHS Foundation Trust	22.7%				22.7%	22.7%	22.7%	
235	Sheffield Community Transport	33.8%				33.8%	33.8%	33.8%	
237	Sheffield Students Union	32.7%				32.7%	32.7%	32.7%	
239	Sheffield Health & Social Care NHS Foundation Trust	27.9%				27.9%	27.9%	27.9%	
241	Great Places Housing Association	32.0%				32.0%	32.0%	32.0%	
307	Voluntary Action Barnsley	33.1%				33.1%	33.1%	33.1%	
308	Barnsley BIC Ltd	24.6%				24.6%	24.6%	24.6%	
310	Independent Training Services Ltd	26.9%				26.9%	26.9%	26.9%	
311	Priory Campus Ltd	38.0%				38.0%	38.0%	38.0%	
412	Doncaster Deaf Trust	32.2%	£38,000	£38,000	£38,000	32.2% plus £38,000	32.2% plus £38,000	32.2% plus £38,000	
422	Shaw Trust	35.2%				35.2%	35.2%	35.2%	
428	St Leger Homes of Doncaster	20.2%	-10.0%	-10.0%	-10.0%	10.2%	10.2%	10.2%	
432	Doncaster Culture & Leisure Trust	26.7%	£38,000	£38,000	£38,000	26.7% plus £38,000	26.7% plus £38,000	26.7% plus £38,000	
473	Doncaster Childrens Services Trust Ltd	23.9%	0.5%	0.5%	0.5%	24.4%	24.4%	24.4%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Community Admission Bodies cont'd									
610	Sheffcare Ltd	33.0%				33.0%	33.0%	33.0%	
663	Sheffield Unison	26.3%	0.7%	0.7%	0.7%	27.0%	27.0%	27.0%	
666	Sheffield Futures	24.6%	-4.5%	-4.5%	-4.5%	20.1%	20.1%	20.1%	
768	Learn Sheffield	31.4%	£16,000	£16,000	£16,000	31.4% plus £16,000	31.4% plus £16,000	31.4% plus £16,000	
834	National College of Advanced Transport & Infrastructure	23.1%	5.1%	5.1%	5.1%	28.2%	28.2%	28.2%	
881	Border to Coast Pensions Partnership Ltd	22.7%				22.7%	22.7%	22.7%	
	Berneslai Homes	20.3%	-10.2%	-10.2%	-10.2%	10.1%	10.1%	10.1%	
	Sheffield Museums Trust	24.5%				24.5%	24.5%	24.5%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Transferee Admission Bodies									
7	CH & CO Group (RCAT Catering)	28.9%	-2.1%	-2.1%	-2.1%	26.8%	26.8%	26.8%	
9	Happy Kids Childcare (RMBC Thrybergh)	21.7%	-2.2%	-2.2%	-2.2%	19.5%	19.5%	19.5%	
14	Hutchison Catering Ltd (AET MAT)	23.0%				23.0%	23.0%	23.0%	
15	Aspens Services Ltd (Brinsworth)	21.6%	-2.0%	-2.0%	-2.0%	19.6%	19.6%	19.6%	
18	NowThen (Prince Edward School Cleaning)	30.9%	3.5%	3.5%	3.5%	34.4%	34.4%	34.4%	
21	Mellors (Hall Cross Academy)	23.6%	-23.6%	-23.6%	-23.6%	0.0%	0.0%	0.0%	
25	ABM Catering (The Hayfield School)	28.5%	-28.5%	-28.5%	-28.5%	0.0%	0.0%	0.0%	
28	Independent Cleaning Services Ltd (Montagu Academy)	TBC	TBC	TBC	TBC	TBC	TBC	TBC	
30	RCCN (Hall Cross Academy)	25.1%	-7.2%	-7.2%	-7.2%	17.9%	17.9%	17.9%	
31	ABM Catering (Maltby Learning Trust)	26.1%	-2.4%	-2.4%	-2.4%	23.7%	23.7%	23.7%	
33	Churchill Contract Services (Brigantia Learning Trust)	34.4%				34.4%	34.4%	34.4%	
35	Relish School Foods (Nexus)	27.5%	-27.5%	-27.5%	-27.5%	0.0%	0.0%	0.0%	
36	Mellors(HighFields Primary)	31.3%				31.3%	31.3%	31.3%	
244	Midshire Catering Ltd	31.8%	-31.8%	-31.8%	-31.8%	0.0%	0.0%	0.0%	
256	Amey Community Ltd (Barnsley BSF Design & Building Schools)	29.5%	-5.2%	-5.2%	-5.2%	24.3%	24.3%	24.3%	
257	Amey Community Ltd SPV1	27.6%	0.7%	0.7%	0.7%	28.3%	28.3%	28.3%	
258	Amey Community Ltd SPV2	34.3%	£1,000	£1,000	£1,000	34.3% plus £1,000	34.3% plus £1,000	34.3% plus £1,000	
259	Amey Community Ltd SPV3	28.9%	£8,000	£8,000	£8,000	28.9% plus £8,000	28.9% plus £8,000	28.9% plus £8,000	
339	Barnsley Norse Ltd	21.6%				21.6%	21.6%	21.6%	
346	Trustclean Ltd (Athersley North)	30.4%	-30.4%	-30.4%	-30.4%	0.0%	0.0%	0.0%	
364	Caterlink (Barnsley Academy)	28.5%	-28.5%	-28.5%	-28.5%	0.0%	0.0%	0.0%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Transferee Admission Bodies cont'd									
389	Dimensions (UK) Ltd	27.4%	-14.6%	-14.6%	-14.6%	12.8%	12.8%	12.8%	
392	ISS Mediclean Ltd	29.9%				29.9%	29.9%	29.9%	
393	Equans Engie Services Ltd (Barnsley Schools)	31.0%	2.0%	2.0%	2.0%	33.0%	33.0%	33.0%	
394	Caterlink (Hunningley Primary)	29.5%	-29.5%	-29.5%	-29.5%	0.0%	0.0%	0.0%	
396	Sodexo (Oakhill Academy Wellspring)	19.1%	-0.4%	-0.4%	-0.4%	18.7%	18.7%	18.7%	
397	Sodexo (Greenacre Academy Wellspring)	20.7%	-5.6%	-5.6%	-5.6%	15.1%	15.1%	15.1%	
398	Sodexo (Springwell Special Academy Wellspring)	28.4%	-28.4%	-28.4%	-28.4%	0.0%	0.0%	0.0%	
429	Crispin & Borst	24.8%				24.8%	24.8%	24.8%	
513	Equans Engie Services Ltd (Rotherham Schools)	21.5%				21.5%	21.5%	21.5%	
533	Morrison Facilities Service Ltd	23.4%	-23.4%	-23.4%	-23.4%	0.0%	0.0%	0.0%	
537	Mellors (Rawmarsh Comprehensive)	36.9%	-36.9%	-36.9%	-36.9%	0.0%	0.0%	0.0%	
541	Trustclean (Wath CE School)	34.5%	-34.5%	-34.5%	-34.5%	0.0%	0.0%	0.0%	
548	Places for People (RMBC)	25.8%				25.8%	25.8%	25.8%	
653	Mellors (Sheffield Schools)	39.6%	-39.6%	-39.6%	-39.6%	0.0%	0.0%	0.0%	
655	Amey LG Limited (Sheffield Highways)	24.1%	-24.1%	-24.1%	-24.1%	0.0%	0.0%	0.0%	
671	Mitie FM Limited	30.3%				30.3%	30.3%	30.3%	
676	Veolia Environmental Services PLC	27.0%				27.0%	27.0%	27.0%	
686	Mitie Ltd	29.4%				29.4%	29.4%	29.4%	
688	Kier Managed Services	34.4%				34.4%	34.4%	34.4%	
698	Taylor Woodrow Construction (Sheffield Schools)	32.9%				32.9%	32.9%	32.9%	
702	Vinci Construction UK Ltd (Bradfield FM)	30.6%				30.6%	30.6%	30.6%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Transferee Admission Bodies cont'd									
747	Places for People (SCC)	25.6%	£8,000	£8,000	£8,000	25.6% plus £8,000	25.6% plus £8,000	25.6% plus £8,000	
759	Places for People (Wisewood Sports Centre)	21.8%				21.8%	21.8%	21.8%	
764	Aspens Services Ltd (Parkwood Academy)	38.3%	-38.3%	-38.3%	-38.3%	0.0%	0.0%	0.0%	
765	Aspens Services Ltd (E-ACT Pathways Academy)	34.8%	-1.4%	-1.4%	-1.4%	33.4%	33.4%	33.4%	
813	Dolce Ltd (Swinton Fitzwilliam)	28.1%	-0.6%	-0.6%	-0.6%	27.5%	27.5%	27.5%	
814	Dolce Ltd (Whiston Junior & Infants)	29.4%	-29.4%	-29.4%	-29.4%	0.0%	0.0%	0.0%	
815	Dolce Ltd (Whiston Worrygoose)	26.8%	-26.8%	-26.8%	-26.8%	0.0%	0.0%	0.0%	
816	Dolce Ltd (Wickersley Northfield)	21.2%	£4,000	£4,000	£4,000	21.2% plus £4,000	21.2% plus £4,000	21.2% plus £4,000	
838	Mellors (Aston Lodge Primary)	19.5%	-8.1%	-8.1%	-8.1%	11.4%	11.4%	11.4%	
839	Mellors (Brinsworth Whitehill)	26.0%	-8.3%	-8.3%	-8.3%	17.7%	17.7%	17.7%	
840	Mellors (Monkwood Primary)	24.1%	-5.3%	-5.3%	-5.3%	18.8%	18.8%	18.8%	
841	Mellors (Rawmarsh Ashwood Primary)	27.3%	-27.3%	-27.3%	-27.3%	0.0%	0.0%	0.0%	
842	Mellors (Sandhill Primary)	21.1%	-21.1%	-21.1%	-21.1%	0.0%	0.0%	0.0%	
843	Mellors (Thrybergh Primary)	29.5%	-29.5%	-29.5%	-29.5%	0.0%	0.0%	0.0%	
848	Dolce Ltd (Kiveton Park)	20.3%	-0.8%	-0.8%	-0.8%	19.5%	19.5%	19.5%	
849	Dolce Ltd (Harthill Primary)	29.8%	-0.8%	-0.8%	-0.8%	29.0%	29.0%	29.0%	
874	Sodexo (Oakwell Rise Academy Wellspring)	32.8%	-32.8%	-32.8%	-32.8%	0.0%	0.0%	0.0%	
875	Sodexo (Forest Primary Academy Wellspring)	24.1%	-6.7%	-6.7%	-6.7%	17.4%	17.4%	17.4%	
877	Affinity Trust - NHS Transfer (SCC)	29.5%	-29.5%	-29.5%	-29.5%	0.0%	0.0%	0.0%	
886	Mitie Catering Services Limited	30.0%	£2,000	£2,000	£2,000	30.0% plus £2,000	30.0% plus £2,000	30.0% plus £2,000	
896	Churchill Contract Services - Dinnington High School	29.2%	£2,000	£2,000	£2,000	29.2% plus £2,000	29.2% plus £2,000	29.2% plus £2,000	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Transferee Admission Bodies cont'd									
916	MAM (Doncaster) Ltd - Doncaster Markets	22.1%	-17.4%	-17.4%	-17.4%	4.7%	4.7%	4.7%	
924	Compass (Atlas Academy)	30.9%	-30.9%	-30.9%	-30.9%	0.0%	0.0%	0.0%	
925	Compass (Hexthorpe Primary)	21.5%	-5.7%	-5.7%	-5.7%	15.8%	15.8%	15.8%	
928	Compass (Intake Primary)	24.3%	-6.6%	-6.6%	-6.6%	17.7%	17.7%	17.7%	
929	Compass (Kingfisher Academy)	27.1%	-7.8%	-7.8%	-7.8%	19.3%	19.3%	19.3%	
930	Compass (The Hill Primary)	24.3%	-24.3%	-24.3%	-24.3%	0.0%	0.0%	0.0%	
931	Compass (Waverley Academy)	18.2%	-18.2%	-18.2%	-18.2%	0.0%	0.0%	0.0%	
932	Compass (Carrfield Primary)	31.6%	2.9%	2.9%	2.9%	34.5%	34.5%	34.5%	
934	Compass (Denaby Main Academy)	31.0%	1.7%	1.7%	1.7%	32.7%	32.7%	32.7%	
935	Compass (Edenthorpe Hall Academy)	29.9%	-3.6%	-3.6%	-3.6%	26.3%	26.3%	26.3%	
936	Compass (Gooseacre Primary)	36.0%	-36.0%	-36.0%	-36.0%	0.0%	0.0%	0.0%	
961	Happy Kids Childcare (Rotherham)	17.7%	-17.7%	-17.7%	-17.7%	0.0%	0.0%	0.0%	
962	Taylor Shaw (Aston All Saints C of E Primary)	21.9%	-1.8%	-1.8%	-1.8%	20.1%	20.1%	20.1%	
964	Taylor Shaw (Flanderwell Primary school)	28.2%	-2.5%	-2.5%	-2.5%	25.7%	25.7%	25.7%	
966	Taylor Shaw (Laughton All Saints Primary)	28.1%	0.9%	0.9%	0.9%	29.0%	29.0%	29.0%	
967	Taylor Shaw (Rossington St Michaels C of E Primary)	27.5%	-27.5%	-27.5%	-27.5%	0.0%	0.0%	0.0%	
968	Taylor Shaw (St Oswalds Finningley Academy)	21.1%	-21.1%	-21.1%	-21.1%	0.0%	0.0%	0.0%	
972	Taylor Shaw (Wickersley St Albans C of E Primary)	34.8%	-34.8%	-34.8%	-34.8%	0.0%	0.0%	0.0%	
982	Equans Engie Services Ltd (Rotherham Council)	23.6%	-23.6%	-23.6%	-23.6%	0.0%	0.0%	0.0%	
984	Churchill Contract Services (Outwood Academy City)	29.3%	-5.3%	-5.3%	-5.3%	24.0%	24.0%	24.0%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Transferee Admission Bodies cont'd									
988	Wates Ltd (Barnsley Housing Maintenance)	22.1%				22.1%	22.1%	22.1%	
997	Mellors (Catcliffe Primary and High Greave Junior)	20.8%	-3.5%	-3.5%	-3.5%	17.3%	17.3%	17.3%	

Notes to the Rates and Adjustments Certificate

1. The contribution rate for Sheffield City Council includes an allowance for the transfer of staff from Sheffield City Trust who transferred into Sheffield City Council on 31 March 2022.

2. The contribution rate for Exceed Learning Partnership includes an allowance for the transfer of staff from Inspiring Future Partnership and Hall Cross Academy Trust who joined the Exceed Learning Partnership on 1 April 2022 and 1 February 2023 respectively.

3. The contribution rate for New Collaborative Learning Trust includes an allowance for the transfer of staff from Creative Children's Academy Trust who joined the New Collaborative Learning Trust on 1 April 2023.

Notes to the Rates and Adjustments Certificate

DRAFT

Further comments to the Rates and Adjustments Certificate

- Contributions expressed as a percentage of payroll should be paid into the Fund at a frequency in accordance with the requirements of the Regulations
- Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentations using methods and factors issued by us from time to time or as otherwise agreed.
- For those employers participating in the Fund's ill-health captive arrangement, primary contribution rates include an allowance of 0.5% of pay pa which will be paid into the captive arrangement.
- The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund Actuary.
- The monetary contributions set out in the certificate above can be prepaid in advance with appropriate adjustments for interest as and when agreed with the Administering Authority. Under these circumstances a revised Rates and Adjustments certificate may be issued reflecting any advance payments.

Douglas Green FFA

Steven Scott FFA

02 March 2023
For and on behalf of Hymans Robertson LLP

HYMANS ROBERTSON

Section 13 Dashboard

Section 13 dashboard

To be completed once GAD confirm required information

Thank you

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

Agenda Item 16

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