Public Document Pack

SOUTH YORKSHIRE PENSIONS AUTHORITY

Oakwell House
2 Beevor Court
Pontefract Road
Barnsley
S71 1HG

www.sypensions.org.uk

NOTICE OF AUTHORITY MEETING

You are hereby summoned to a meeting of the South Yorkshire Pensions Authority to be held at Oakwell House, 2 Beevor Court, Pontefract Road, Barnsley, S71 1HG on Thursday, 7 September 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:	Governance Team	Tel:01226 666412
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Distribution

Councillors: J Dunn (Chair), M Havard (Vice-Chair), R Bowser, S Clement-Jones, S Cox, A Dimond, D Fisher, C Gamble Pugh, J Mounsey, D Nevett, A Sangar and M Stowe.

Contact Details

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SOUTH YORKSHIRE PENSIONS AUTHORITY

THURSDAY, 7 SEPTEMBER 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.	Announcements	
3.	Urgent Items To determine whether there are any additional items of business which by reason of special circumstances the Chair is of the opinion should be considered at the meeting; the reason(s) for such urgency to be stated.	
4.	Items to be considered in the absence of the public and press To identify 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 8th June 2023	5 - 16
8.	Question from the public	17 - 18
9.	Q1 Performance Report	19 - 52
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SOUTH YORKSHIRE PENSIONS AUTHORITY

8 JUNE 2023

PRESENT: Councillor J Dunn (Chair)
Councillor M Havard (Vice-Chair)
Councillors: R Bowser, S Clement-Jones, S Cox, A Dimond, D Fisher, C. Gamble-Pugh, D Nevett, A Sangar and M Stowe

Non-voting Coopetes: N Doolan-Hamer (Unison) and G Warwick (GMB)

Investment Advisors: T Castledine and A. Devitt

Officers: S. Ghuman (Deputy Clerk BMBC), G Graham (Director), J Stone (Head of Governance & Monitoring Officer), S Smith (Assistant Director - Investments Strategy), N. Keogh (Interim Assistant Director - Pensions), G Taberner (Assistant Director - Resources & Chief Finance Officer), W Goddard (Head of Finance), B.Illidge (Communications Officer) and J. Webster (Service Manager - Customer Services)

Apologies for absence were received from Councillor J Mounsey

1 WELCOME AND INTRODUCTIONS

The Deputy Clerk welcomed everyone to the meeting and oversaw the process of electing a new Chair of the Authority.

2 APPOINTMENT OF CHAIR AND VICE CHAIR

The Deputy Clerk invited nominations for the role of Chair, Councillor Jayne Dunn was nominated for the position by Councillor Nevett and seconded by Councillor Stowe. There being no other nominations Councillor Dunn was confirmed as Chair of the Authority for the 2023/24 Municipal Year and assumed the Chair.

The Chair invited nominations for the position of Vice-Chair. Councillor Marnie Havard was nominated by Councillor Nevett and seconded by Councillor Stowe. There being no other nominations Councillor Havard was confirmed as Vice Chair.

3 VOTE OF THANKS TO OUTGOING CHAIR

Councillor Cox proposed a vote of thanks to Councillor Mounsey the outgoing Chair. The Committee unanimously agreed and a letter of thanks will be issued to Councillor Mounsey.

4 APOLOGIES

Apologies were noted as above.

5 DECLARATIONS OF INTEREST

None

6 ANNOUNCEMENTS

None

7 QUESTIONS FROM THE PUBLIC

Questions were received from Ms Poland and Mrs Cattell. The Director replied on behalf of the Authority.

Written copies of the questions and responses were given to the public attendees and an e-mailed version will be sent to Ms Poland who was unable to attend.

The written replies are attached as appendices at the end of this pack.

8 URGENT ITEMS

None

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

Resolved: Item 26 shall be considered in the absence of Public and Press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

10 ADOPTION OF THE CONSTITUTION

The Head of Governance presented a report to secure the approval for the Authority's updated Constitution following a detailed review which had been supported by external legal advisers.

Members considered the report.

RESOLVED: a) Members approved the updated Constitution.
b) Approved the recommended future arrangements and delegations in relation to further amendments set out in Paragraph 5.5

11 MEMBERSHIP, POLITICAL BALANCE AND APPOINTMENT TO COMMITTEES

The Director delivered a report on the appointments to the Authority's Committee's for the 2023/24 Municipal Year in line with the political balance rules applying to the Authority and,

RESOLVED:

a) To note the members appointed to the Authority by the District Councils
b) To note the members appointed to answer questions in the meetings of the Full Council of the District Councils
c) To approve the following appointments to Committees

Audit and Governance Committee:
Con Councillor S. Cox
Lab Councillor R. Bowser
Councillor M. Havard (Chair)
Councillor D. Nevett
LD Councillor S. Clement-Jones
Vacancy Green Councillor

Appointments and Appeals:
Con Councillor D. Fisher
Lab Councillor J. Dunn (Chair)
Councillor M. Havard
Councillor J. Mounsey
Councillor M. Stowe
LD Councillor A. Sangar

Staffing:
Con Councillor D. Fisher
Lab Councillor J. Dunn (Chair)
Councillor M. Havard
Councillor J Mounsey
Councillor M. Stowe
LD Councillor A. Sangar

12 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None

13 MINUTES OF THE MEETING HELD ON 16/03/2023

RESOLVED: That the minutes as presented for the Authority Meeting held on 16th March 2023 are a true and accurate record.

14 CORPORATE PERFORMANCE REPORT 2022/23 (Q4)

The Assistant Director – Resources and Head of Finance delivered the Q4 Corporate Performance Report for members to consider and approve.

Members raised questions around the root causes of complaints and whether the Authority was effectively managing scheme member expectations around response times. In response the Interim Assistant Director – Pensions responded that while staff do try to keep members informed of delays in processes (for example due to receipt of information from employers) and this was increasingly being automatically built into processes there is clearly a mismatch between what scheme members expect and staff's capacity to deliver particularly in the context of current workloads. The issue would be addressed more fully in the work described to address the challenges facing Pensions Administration dealt with elsewhere on the agenda.

RESOLVED: Members:

a) Approved the budget virement set out in paragraphs 5.1 to 5.3 of the report

b) Approved the transfer to and from earmarked reserves as set out in the table in paragraph 5.61 amounting to a net total transfer from reserves of £66,360

15 Q4 INVESTMENT PERFORMANCE REPORT 2022/23 (INC ADVISERS REPORT)

T. Castledine – Independent Adviser presented the Q4 Advisers Report for members to consider and note.

This was followed by the Assistant Director – Investments who delivered the Q4 Investment Performance Report.

Members sought the views of the advisers on the causes and potential impacts on the Fund of the current levels of inflation. The advisers responded that the current pattern of inflation was following a similar path to historical inflationary cycles and that these could be extremely difficult to deal with. In terms of the impact on the Fund higher inflation made real (i.e. above inflation) returns more difficult to achieve although conversely the increases in interest rates necessary in this environment had a positive impact by reducing liabilities.

RESOLVED: Members noted both reports.

16 Q4 RESPONSIBLE INVESTMENT UPDATE 2022/23

The Director presented the regular quarterly report on Responsible Investment Activity for Members to note and comment upon.

Members asked about the recent Shell AGM and how votes had been cast. The Director responded that due to the timing of the meeting this was not covered in this report but that a briefing note would be provided when the information was available.
Members asked whether the Fund has different policy approaches to Israel and Palestine as opposed to Russia and Ukraine and whether there is a risk of legal action against the Authority for holding the investments in Israeli banks?

The Director replied the Fund is obliged to follow all international sanctions, as with the Russian invasion of Ukraine. The small number of investments held by the Fund in Russia prior to the war in Ukraine could not be disinvested due to the sanctions and so are now worthless.

The situation in Israel is materially different. There is a risk of legal action, but that could come from either side of the issue, and potentially regulatory action under forthcoming regulation in relations to Divestment Boycotts and Sanctions.

RESOLVED: Members noted the content of the report.

17 PENSIONS ADMINISTRATION PERFORMANCE STANDARDS

The Interim Assistant Director – Pensions presented a report to inform members of pensions administration performance for the year ending 31 March 2023 and planned actions over the coming months.

Members raised a number of questions on specific areas, including:

- Whether there were different levels of customer satisfaction between those who communicate with the Authority electronically and using traditional methods. In response officers considered that the issues are more about the timescales for communication rather than the method.

- Whether members with digital accounts could track progress on their particular case. Officers responded that while clearly desirable this function was currently not available.
- Whether the Authority's processing time targets were out of line with other LGPS schemes, in which case we might be setting unrealistic expectations. Officers responded that this is indeed the case and the current targets were set before the 2014 scheme was introduced and are now clearly unrealistic and will be reviewed as part of the work identified in the report.

Resolved: Members noted the report.

18 CONSULTATION, COMMUNICATIONS AND ENGAGEMENT STRATEGY APPROVAL

The Director presented the Consultation, Communications and Engagement Strategy and introduced J. Webster - Service Manager - Customer Services and B. Illidge - Communications Officer who authored the strategy.

The Director noted that this is a statutory document and of high importance to the Authority. There are no fundamental changes but looks to move us forward in several areas as outlined in the report.

Given that the strategy is relatively static it was proposed to extend the review period to every two years.

Members raised a number of points in discussion, including:

- Whether it would be possible to provide members of the Authority with tools to help raise awareness of pensions issues. Officers would see whether anything could be done in this regard and highlighted the increasing emphasis on encouraging scheme members to engage with their pension throughout their life not just in the lead up to retirement.
- The arrangements for the Annual Fund Meeting and how to encourage attendance. Officers noted that attendance had been declining prior to the pandemic and that this was an issue common to many LGPS funds.

RESOLVED: Members approved the revised Consultation, Communications and Engagement Strategy.

19 2022 VALUATION COMPARISONS

The Director presented a report providing a comparison the Fund's 2022 valuation results with those of the other LGPS funds in England and Wales.

Members attention was drawn to the conclusion that the Fund was in a relatively strong position following the valuation.

RESOLVED: Members noted the report.

Councillor Cox left the meeting at this point to attend a previously booked appointment.

20 MEMBERS’ LEARNING AND DEVELOPMENT STRATEGY

The Head of Governance delivered a report to provide members with a forward look at arrangements for 2023/24 within the Members Learning and Development Strategy and setting out a training plan to address the needs identified from the national knowledge assessment completed in 2022/23.

Officers responded to a range of detailed questions concerning topics for future training sessions and the promotion of webinars to members and whether the additional online learning modules needed to be completed by all members.

Officers also agreed to recirculate the calendar for members.

RESOLVED: Members approved the Members Learning and Development Strategy 2023/24.

21 ANNUAL REPORT OF THE AUDIT COMMITTEE

The Head of Governance presented the Annual Report of the Audit Committee in the absence of Councillor Weatherall, the outgoing Chair of the committee to allow members of the Authority to consider the annual report of the Audit Committee as part of the process of gathering assurance for the production of the Annual Governance Statement.

RESOLVED: Members noted the report and asked that thanks be passed on to Councillor Weatherall for his work on the report.

22 ANNUAL REPORT OF THE LOCAL PENSION BOARD

G. Warwick as Chair of the Local Pension Board presented the LPB Annual Report to allow members of the Authority to consider the annual report of the Local Pension Board, in line with the LGPS Governance Regulations and as part of the process of gathering assurance for the production of the Annual Governance Statement.

Thanks were extended to C. Scott the Independent Adviser to the Board and the Officers for their insights and support throughout the year.

RESOLVED: Members noted the report.

23 ANNUAL GOVERNANCE STATEMENT

The Head of Governance presented the Annual Governance Statement 2022/23 for the Boards approval.

Officers responded to detailed questions concerning changes to the appeals process and the analysis of common trends.

RESOLVED: Members:

a. Approved the Annual Governance Statement for 2022/23 and authorise its signature by the Chair and Director.

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

24 MEMBERS REMUNERATION

The Head of Governance presented a report to provide Members with information regarding potential introduction of remuneration for Non-Voting Authority members, Local Pension Board members and for Independent Members of the Audit & Governance Committee.

RESOLVED: Members:

a. Considered the introduction of remuneration for Non-Voting Members of the Authority, Members of the Local Pension Board and Independent Members of the Audit & Governance Committee and agreed to proceed with the option identified in the body of the report.

b. Authorised the Head of Governance to update the Members' Allowances Scheme accordingly.

25 DECISIONS TAKEN BETWEEN MEETINGS

The Head of Governance presented a report to report on decisions taken as a matter of urgency between meetings of the Authority.

There had been one decision taken as outlined in paragraph 5.3 of the report.

RESOLVED; Members noted the decision taken between meetings of the Authority using the appropriate urgency procedures.

26 PENSION ADMINISTRATION SYSTEM

Resolved: Item 26 shall be considered in the absence of Public and Press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

The Interim Assistant Director – Pensions presented an update to Members on the outcome of the consideration of options to the Pensions Administration Systems.

RESOLVED: Members discussed and accepted the Recommendations set out in the report.

27 APPENDIX A

Questions from Members of the Public

Question from Ms C Poland

The new far right government in Israel includes ministers who have openly declared themselves to be fascists. This government has caused increased violence towards *and oppression of the Palestinian population. Many international financial organisations are moving funds out of Israel due to the ongoing instability.*

In the light of this situation has the South Yorkshire Pension Authority and/or Border to Coast discussed taking investments out of Israel, especially any that are operating in the illegal settlements, such as Bank Hapoalim and Bank Leumi?

Response

The position is much more complex than the question implies and the consideration of the issues raised in the question is not one of politics but of investment risk. The nature of this risk varies both between investee companies and the assets in which investments are made (risks may be different between bonds and equities, and the investments referred to here are in bonds and not equities). SYPA as the question acknowledges works through Border to Coast in this area and subscribes to the shared policy framework agreed by the 11 partner funds and the company. The following information provided by Border to Coast sets out the various issues and considerations which are involved in dealing with issues of this sort.

<u>Overview</u>

We fully recognise the importance and sensitivity of any human rights issues in the Occupied Palestinian Territories (OPT). Border to Coast considers material ESG factors, including human rights violations, when analysing potential investments. The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value.

Border to Coast's Responsible Investment (RI) policy, which has been developed in conjunction with Partner Funds, does not operate any exclusions related to human rights violations. We take a holistic approach to identify all the risks a company faces and understand the materiality of these issues.

We monitor portfolios using ESG data providers across a wide range of environmental, social and governance (ESG) issues including the MSCI Global Compact Assessment, Plenitude Compass Country Risk List and RepRisk ESG incident feeds. We also monitor information from a number of other sources, including the UN Human Rights Office of the High Commissioner and NGOs. Our voting and engagement partner monitors client portfolios to pick up UN Global Compact and OECD Guidelines breaches, which includes human rights violations.

We prioritise engagement activity based on investment risk, the materiality of the issue and the probability of being able to make a successful intervention. One of our current engagement themes "Human Rights Due Diligence for Conflict Affected and High-Risk Areas" being conducted by Robeco specifically covers companies operating in Israel, Palestine and the OPT.

Companies were selected for the engagement using the UN database which classifies the involvement of 112 companies in the OPT. In addition to this, the Local Authority Pension Fund Forum (LAPFF) on behalf of Border to Coast and our Partner Funds, engaged with 17 companies in 2021 who were identified as having "potentially problematic operations in or related to the OPT". LAPFF continues to ask a number of companies to undertake human rights impact assessments on their operations in the OPT.

Border to Coast: Process for Screening against UN Global Compact

The UN do not keep a list of companies who breach the UN Global Compact – it is up to people/data providers interpretations. As such our approach is doing this is:

- We screen all of our companies, internal and external, for UN Global Compact compliance using MSCI. We also use other data sources to complement this.
- Our approach is to screen on a quarterly basis. However, if a company was deemed to have breached UNGC we receive an update from MSCI in real time. The RI team use MSCI review of all holdings. MSCI will flag companies as red/orange/green in terms of controversies (including suspected UNGC breaches)
- We also use RepRisk – although this is more on a case-by-case basis (we do get alerts to incidents but not UNGC breaches): This monitors if any breaches are within operations or in supply-chain
- More broadly the investment team uses Plenitude which gives a risk by country
- Robeco have a proprietary human rights Framework that also factors into our voting decisions, as noted in the above section.

For internally managed funds, this feeds into a quarterly dashboard of companies who have potentially breached UNGC, are 'CCC' rated by MSCI and/or are our top 5 emitters. This goes to the Head of Investment and the Portfolio Managers.

None of the companies on the list provided have been flagged by MSCI or RepRisk as potentially breaching UNGC. Some have commentary from MSCI that acknowledge human rights concerns related to their business activities on the West Bank.

We would note that the assertion that the names stocks are violating the UN Global Compact is data provider specific – so for example MSCI may not categorise a company as in breach but Sustainalytics may do.

SYPA continues to regard the issues concerned with companies operating in the Occupied Palestinian territories extremely seriously and will continue to work with Border to Coast and with the Local Authority Pensions Fund Forum to ensure that companies are made aware of these concerns and act in ways which ensure that they are not in breach of the UN Global Compact. However, the judgement on the level of risk related to individual stocks has to be a judgement for the individual fund manager who is better able to make a judgement on the circumstances of and investment risk associated with the individual company than SYPA.

Questions from Members of the Public 2

Question from Ms J Cattell
(Please note this question follows on from a question asked by Ms Cattell at a previous meeting and which was responded to after the meeting following the receipt of information from Border to Coast).

Thank you for the reply to the question I posed at the last quarterly meeting . The answer talks about the number of Arab people employed by the banks in Israel. I presume here you are talking about employment within the current borders of Israel and not about the Palestinian lands under Israeli occupation. Can you confirm this.
My questions however concerned investments and business of the banks in the Palestinian settlements in contravention of international law.

As I said in my letter, Bank Leumi Le Israel, Bank Hapoalim B.M. Mizrah Tefahot and Altice all companies that are named on the United Nations list of companies linked to illegal Israeli settlements. The extensive human rights impact of settlements on the human rights of Palestinians has been well documented in successive reports of the Secretary General of the United Nations.

While companies like these continue to invest money and do business in illegal settlements, it promotes the development of those settlements and other new settlements depriving Palestinians of their land and livelihoods. Palestinians are not allowed to live in the settlements and are generally prohibited by the Israeli authorities from building homes.

Schools and businesses on their own Palestinian land. That same land that is being used to develop Israeli Settlements It is this issue of developing business in illegal settlements and the impact on the Palestinian people that I was wanting you to engage in with the companies. Any company making this sort of investments does not seem a suitable company to invest our pension fund in and at odds with SYPAs Responsible Investment policy which states that companies should have “Respect for the human rights of the communities with which they interact and their various stakeholders”

My question for this coming meeting is therefore “What engagement has been carried out or is planned concerning Bank Leumi Le Israel, Bank Hapoalim B.M. Mizrah Tefahot and Altice’s breaking of international law and human rights abuses in the illegal Israeli settlements.

Response

The following information has been provided by Border to Coast after consultation with the underlying fund managers who hold the stocks mentioned in the question.
In response to the point in the previous answer about the number of Arab people employed by the banks in Israel.

The data provided is on total operations, not split by Israel and POT. It is not possible in practice for Israeli companies to split out their workforce this way since Israel does not recognise the term Occupied Territories or the Palestinian State.
In response to the second question concerning previous or planned engagement.
The short answer, is that there is no update from either fund manager that holds debt instruments issued by these companies:

Ashmore (Bank Leumi Le Israel, Bank Hapoalim B.M. Mizrah Tefahot)
We have not carried out any further engagement beyond getting the information we provided in our original response.
We take Responsible Investment considerations very seriously. We seek to differentiate between factors that companies can either control or manage, and

general political, country-level, factors that are the domain of political decision-makers.

The former should be and are an integral to our ESG process and credit analysis as undertaken by our corporate debt team. Their conclusion is that the Israeli banks are managing these issues successfully in challenging circumstances. They have not been sanctioned or otherwise targeted for irresponsible behaviour. We believe they act reasonably, sensitively, and responsibly.

PIMCO (Altice):
We haven’t engaged with Altice on this topic. They understand this controversy dates back several years and that Altice is not presently on any watch lists or flagged as being non-compliant with international standards on human rights and best practices, hence the lack of engagement.

CHAIR

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Questions from the public:

Question submitted by Mrs Smith

The Department of Levelling Up, Housing and Communities is proposing that all Local Government Pension funds should be transferred into less than 8 pools by 2025, with 5% of funds allocated to levelling up.

We see this proposed change as a severe curtailment of local democracy. It will mean that local councils have almost no control over their pension funds, to which the people they represent have contributed their earnings, handing the funds over to companies which could be controlled by government favoured consultants and hedge funds. We have seen the result of handing over public assets to private companies with the water companies.

What will be your response to the consultation and will South Yorkshire Pension Authority defend local democracy and oppose these proposed changes?

Question submitted by Mr Ashton

On page 3 of the Climate Change policy it states that SYPA "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."

While we approve of this statement it is, unfortunately, vague in detail. For example BP has recently scaled back on its climate targets (https://www.bbc.co.uk/news/business-64544110) and does not publish its scope 3 emissions, certain proof, if it were needed, that engagement is not working. Similarly, Shell are not increasing their investments in renewables (https://www.theguardian.com/us-news/2023/jul/16/big-oil-climate-pledges-extreme-heat-fossil-fuel). However, SYPA continue to invest in these companies.

Directly related to this, on page 11 of the Action Plan for Delivering the Net Zero Goal, you say that "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."

In addition, also on page 11, you state that it is SYPA's intention to vote against the chair of companies that fail the first four indicators of the CA100+ benchmark. The first four indicators are desperately weak and companies like Shell and BP scrape through, just by publishing an ambition to be net zero by 2050 (indicator 1). We believe that the key CA100+ indicators are 3.3, 4.3, 5.1b and 6.1b which measure alignment or targets towards limiting warming to 1.5°C in the short and medium term, all of which are failed by Shell and BP.

Based on the above, we would like to ask:

1. At what point will SYPA decide that a company is not responding to engagement?

2. What targets/thresholds will be used and when will they be made public so that the authority can be held accountable?

3. Will SYPA consider the more stringent CA100+ tests (3.3, 4.3, 5.1b and 6.1b) of a company's ambitions as their benchmark?

4. At what point will divestment be considered?

SOUTH YORKSHIRE
PENSIONS AUTHORITY

Delivering for our Customers – Corporate Performance Report

Quarter 1 2023/24

Contents

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4. How are we performing –
    - Corporate Measures
    - Investment Measures
    - Pension Administration Measures
    - Financial Measures
5. What Is Getting in the Way – Risk Management
6. Learning From Things That Happen
    - Complaints
    - Appeals
    - Breaches
    - Satisfaction Surveys

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 first quarter of the 2023/24 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.

Delivery of corporate strategy is showing good progress across a range of objectives.

Despite market conditions, a strong funding level is being maintained.

Performance in pensions administration has declined since the previous quarter.

Related to the above, a new risk relating to backlogs has been added to the risk register. Mitigations identified.

An over-spend of 1% against the budget is currently forecast.

3. Delivering the Corporate Plan & Supporting Strategies

3.1 This section provides an update on progress made in delivering the corporate objectives of the organisation.

3.2 The update to the Corporate Strategy for the period 2023-2026 was approved in February 2023 and reflects the continuing ambition to build a stronger, more resilient organisation focussed on delivering for our customers.

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 table provides updates in respect of developments that have taken place during the quarter in delivering these programmes of work.

3.5 Key to abbreviations used in the table that follows:

Key to Responsible Managers:	
ADIS	Assistant Director - Investment Strategy
ADP	Assistant Director - Pensions
ADR	Assistant Director - Resources
Ben	Service Manager - Benefits
Cus	Service Manager - Customer Services
Dir	Director
Gov	Governance Team Leader
HoF	Head of Finance
HoG	Head of Governance
ICT	Head of ICT
INF	Service Manager - ICT Infrastructure
OMO	Operations Management Officer
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	2023/24 Progress Updates Quarter 1	On Track:
Data						
D02	**Guaranteed Minimum Pension – Completion of Rectification process**	Nov-21	Dec-23	ADP	The timescale for this objective has been put back to be completed in the Oct to Dec quarter. Work is in progress and currently on track to meet this revised target date.	✓
D03	**McCloud Remedy-**	**Mar-22**	**Apr-24**	**ADP**	See updates below:	
	System Upgrades	*Apr-23*	*Oct-23*	*Sys*	The timescales for this were revised due to delays in the issuing of regulations. Ongoing dialogue is currently taking place with software supplier to ensure the relevant updates are installed and tested.	✓
	Processing and Case Reviews	*Apr-23*	*Mar-24*	*Ben*	In progress.	✓
	Member Communications	*Apr-22*	*Mar-24*	*Cus*	Ongoing. Some general communications have appeared in newsletters and on Annual Benefits Statements.	✓
	Employer Communications	*Oct-21*	*Mar-24*	*S&E*	Ongoing. Employers kept informed via newsletter every quarter.	✓
D05	**Pensions Dashboard – Provision of data in line with regulatory requirements**	**Apr-23**	**Mar-25**	**Sys**	Demonstrations received from suppliers who provide data transfer. Work on this currently paused.	⇔
D06	**Deliver annual data improvement plan**	**Apr-22**	**Mar-25**	**TA**	Work is ongoing.	✓
Process Improvement						
P01	**Implement contractual improvements to the Core UPM Pension Administration System –**	**Feb-22**	**Mar-25**	**ADP**		
	Review of compliance with the new contract and effectiveness of delivery	*Dec-22*	*Jun-23*	*ADP*	Work is well progressed as reported to the Authority meeting in June 2023.	✓

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	2023/24 Progress Updates Quarter 1	On Track:
	Review and updating of processes	*Apr-22*	*Mar-24*	*Ben / Sys*	In progress, a working group led by the Service Manager - Pensions Systems has been established to identify and prioritise the various changes required.	✓
	Automation of Joiners	*Sep-21*	*Apr-24*	*Sys*	No progress made in Q1.	-
	Automation of leavers / deferred members	*Jun-21*	*Jun-24*	*Sys*	No progress made in Q1.	-
	Improve functionality of employer hub	*Apr-23*	*Mar-24*	*Sys*	Ongoing - dialogue taking place with software supplier regarding the options for employer hub and associated costs.	⇔
P02	**Monthly Data Collection (MDC) -**	**Mar-22**	**Mar-25**	**Ben**	Establishment of new MDC team dedicated to work on this area is proving to be very successful.	-
	Validator App enhancements	*Mar-22*	*Mar-25*	*ICT / Ben*	Work on this will recommence following consolidation and embedding of the new processes in the relatively new MDC team.	-
P03	**Reporting – Implement improvements to the completeness and degree of automating of reporting across the organisation –**	**Apr-22**	**Mar-25**	**Dir**		
	Pension Administration Regular Management Information	*Apr-22*	*Mar-24*	*Ben / Sys / PP*	Limited progress in 2022/23, will provide a greater focus on this objective in the second half of 2023/24 - when new AD - Pensions in post and also when new Service Manager - Programmes and Performance recruited.	⇔

Ref	Project / Action	Timescale		Responsible Manager	2023/24 Progress Updates Quarter 1	On Track:
		Start	Finish			
	UPM Finance Reports	*Apr-22*	*Mar-24*	*Sys / HoF*	Originally held up awaiting delivery of consultancy from the software supplier; this has now been provided and the Systems team are liaising with Finance team to ensure the full suite of required reporting is available. On track to meet timescale.	✓
	Customer Centre Management Information	*Apr-22*	*Mar-23*	*Cus*	In progress. Monthly reports with data are now being produced, with further work required to refine and enhance the management information and analysis of this.	⇔
	Employer Performance	*Apr-22*	*Mar-24*	*Ben / S&E*	Ongoing. Should be able to progress this further in line with work on the wider pensions administration system MI and the work being done by the MDC team.	✓
	Financial Reporting	*Apr-22*	*Mar-25*	*ADR / HoF*	Ongoing.	✓
	HR Reporting	*Oct-22*	*Mar-25*	*ADR / HRBP*	Not yet started - will be taken forward when new HR system procured and implemented.	-
P04	**Financial Process Improvements -**	**Apr-22**	**Mar-24**	**ADR**		
	Review debt recovery processes	*Apr-23*	*Mar-24*	*HoF*	A new debt recovery policy and procedure has been drafted, pending SMT approval. On track to meet the target timescale.	✓
	Review of processes following implementation of new financial systems to capture benefits	*Apr-22*	*Dec-23*	*HoF*	Benefits are being realised, timescale for completion of review exercise was revised to later in 2023 due to other priorities.	⇔
	Complete the review of the VAT Partial Exemption Special Method	*Mar-23*	*Dec-23*	*HoF*	Not yet progressed but work due to take place in second half of the year.	⇔

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	2023/24 Progress Updates Quarter 1	On Track:
	Review custodian arrangements and procure as necessary	*Feb-22*	*Mar-24*	*HoF*	Work on this is progressing well and is on track for the target timescale.	✓
	Reprocure commercial property insurance if required	*Jul-24*	*Mar-25*	*ADR / HoF*	Not yet due.	-
P05	**Certifications aimed at embedding process improvements across the organisation –**	**Apr-22**	**Mar-25**	**Dir**		
	Maintain Customer Services Excellence accreditation	*Apr-22*	*Mar-24*	*Cus*	Accreditation retained as at March 2023 following a full review.	✓
Investment						
I01	**Strategic Issues –**	**Apr-22**	**Mar-25**	**Dir**		
	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*	Annual update completed as at March 2023, next one will be completed for March 2024.	✓
	Implement new requirements related to TCFD Reporting	*Apr-22*	*Ongoing*	*Dir / ADIS*	Working with Border to Coast on this - to consider complexities in relation to legal requirements.	✓
I02	**Tactical and Transactional Issues –**	**Apr-22**	**Ongoing**	**ADIS**		
	Implement revisions to the Strategic Asset allocation	*Apr-23*	*Ongoing*	*ADIS*	Implementation will begin from Apr 2023 but some of the expected changes will have to be phased in.	✓

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	2023/24 Progress Updates Quarter 1	On Track:
	Determine the approach to the Border to Coast property proposition and transition assets as necessary	*Mar-22*	*Dec-24*	*Dir / ADIS*	Commitment made to the global product subject to final due diligence. Launch likely Q1 of 2023/24 Final commitment to UK product not yet required and will await an update to the Border to Coast Business Case. Launch likely in first half of 2024.	✓
	Conclude Project Chip	*Sep-21*	*Sep-23*	*Dir*	On-going, must conclude by December 2023.	⇔
	Review legacy portfolios and determine the ultimate exit routes in each case	*Apr-22*	*Ongoing*	*ADIS*	This will be a focus at the investment panel to be held in September 2023.	✓
	Continue to develop stewardship reporting in response to regulatory feedback	*Apr-22*	*Ongoing*	*ADIS*	Work is ongoing.	✓
Organisation						
O01	**Governance –**	**Dec-21**	**Mar-25**	**ADR**		
	Review and update information governance arrangements	*Jun-22*	*Mar-24*	*HoG*	This is a significant project. Work is well under way on preparation and review of a suite of policy and procedures, with an aim to implement these and roll out training to staff during 2023/24.	✓
	Complete roll out of workflows etc. within Modern.gov and implement paperless meetings	*Apr-22*	*Sep-23*	*Gov*	This is well progressed now and on track for completion to the revised timescale shown.	✓
	Update procurement arrangements, processes, and systems including the implementation of the YORtender replacement	*Dec-21*	*Dec-23*	*Gov*	YORTender replacement platform was implemented successfully. Procurement procedures currently being reviewed.	✓

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	2023/24 Progress Updates Quarter 1	On Track:
	Update process and procedure documentation across all aspects of Pension Administration to allow regulatory compliance to be demonstrated through the Portal	*Apr-22*	*Mar-25*	*S&E*	Work is ongoing.	-
	Demonstrate compliance with the relevant TPR codes	*Sep-22*	*Aug-23*	*ADP / HoG*	Currently awaiting publication of new TPR General Code of Practice.	⇔
	Commission full review of the Constitution through the use of legal advisers.	*Dec-22*	*Jun-23*	*HoG*	**Completed** - revised Constitution approved at the June Authority Meeting.	✓
O02	**People –**	**Jan-22**	**Ongoing**	**SMT & HR**		
	Procure and implement a new HR and Payroll System	*Apr-23*	*Mar-24*	*ADR / HoF / HRBP*	The work on this project slipped due to competing priorities and limited staffing resources available to work on this. Timescale has been revised for this to be progressed during 2023/24.	⇔
	Consolidate the new finance team structure and capture benefits	*Apr-22*	*Ongoing*	*HoF*	An exercise to review progress and benefits realised is due to take place in Oct-Dec 2023.	✓
	Develop a staff Health and Wellbeing Strategy	*Jan-23*	*Apr-24*	*ADR / HRBP*	Health and Wellbeing arrangements are well embedded but the development of a strategy has not yet started.	✓
	Develop an Apprenticeship framework to support existing and future apprentices	*Apr-23*	*Mar-24*	*HRBP*	Framework in place but requires further development - to be taken forward in 2023/24.	✓
	Create structured learning paths for different job roles using the different learning support technologies available	*Jan-22*	*Sep-24*	*HRBP / S&E*	Some work done but not yet embedded. A new post of Business Support Officer with a focus on Learning and Development is due to start in Oct 2023 - this role holder will support the work required in this area.	✓

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	2023/24 Progress Updates Quarter 1	On Track:
	Undertake staff survey and identify appropriate responses to the results	*Jun-23*	*Dec-23*	*ADR / HRBP*	Work on this will be progressed during the second quarter of 2023/24 with the survey results due in October 2023.	✓
	Enhance collaborative working across the organisation	*Jan-22*	*Ongoing*	*All Managers*	Progressing well, with a number of collaborative groups now in place; including a Middle Managers group, a cross-functional pensions system oversight group, among others.	✓
O03	**ICT –**	**Jun-21**	**Mar-25**	**ICT**		
	Complete the roll out of Microsoft 365 tools and the migration to 365 infrastructure	*Jun-21*	*Dec-23*	*ICT*	The majority of this is complete, final stages on track to be completed by December 2023.	✓
	Agree and implement a revised hardware replacement programme	*Apr-22*	*Jun-23*	*INF*	A programme of replacement of laptops is in progress and work is also taking place to replace desktop monitors in the office.	✓
	Review and update ICT policies, including specifically a review of password management arrangements	*Apr-22*	*Ongoing*	*ICT*	Not yet progressed - will be seeking to procure some external support with this work due to having insufficient resources available in the team to cover this in addition to the wide range and volume of other priorities.	⇔
	Strengthen Cyber Security	*Apr-22*	*Ongoing*	*ICT / INF*	Cyber Essentials accreditation retained, cyber security training delivered to all employees. Work in this area is continually being developed and is high priority for the organisation.	✓

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	2023/24 Progress Updates Quarter 1	On Track:
O04	**Project and Programme Management –**	**Jun-22**	**Mar-24**			
	Determine a stripped down and appropriately scaled programme and project management process	*Jun-22*	*May-2023 -* ***Revised to Mar-2024***	*PP*	Good progress made during 2022/23 with establishment of a small team and implementation of project management methodology tailored appropriately to our size and scale. Next phase is to focus on the performance management framework; this has been delayed due to staff turnover; we are currently recruiting for a new Service Manager - Programmes and Performance who will be responsible for taking this forward. Timescale revised accordingly.	✓
O05	**Business Continuity –**	**Apr-22**	**Ongoing**	**ADR**		
	Produce revised corporate business continuity plan	*Apr-22*	*Dec-23*	*ICT / OMO*	New role of Operations Management Officer reporting to the Head of ICT has been recruited and will commence in August 2023; this role holder will lead on this piece of work and we will commission external assistance as required due to a lack of resources internally to dedicate to this work.	✓
	Reinstate annual testing of ICT Disaster Recovery arrangements.	*Sep-22*	*Ongoing*	*ICT / INF*	Ongoing local testing has taken place.	✓

Ref	Project / Action	Timescale		Responsible Manager	2023/24 Progress Updates Quarter 1	On Track:
		Start	Finish			
O06	**Pay and Benefits Review**			**ADR**		
	Commission an independent review of the organisation's pay and benefits, and develop actions to address the findings.	*Oct-22*	*Mar-24*	*ADR / HRBP*	Original review was completed in 2022/23. The outcome from this was to commission some further work in relation to practical recommendations around pay structure and the wider benefits package. Good progress made on this during the first quarter and the aim is to produce a set of proposals to take to the Staffing Committee in the autumn this year.	✓

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 during April to June 2023 is as follows.

Measure	Performance Quarter 1 2023/24	Performance YTD 2023/24	Performance in Previous Year Q1: 2022/23	Movement
Short Term Sickness Absence – Days Lost per FTE	0.96	0.96	0.73	⇧
Long Term Sickness Absence – Days Lost per FTE	1.38	1.38	0.71	⇧
Total Days Lost per FTE	**2.34**	**2.34**	**1.44**	⇧

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 The sickness absence in this first quarter of the year has increased compared to the same quarter last year.

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. Human Resources are currently putting in place additional measures to support and ensure line managers take appropriate steps to manage attendance in line with the policy – such measures include providing additional notifications to service managers on sickness absence triggers each month, copied to the relevant Assistant Director.

4.6 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.

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

Investment Measures

4.8 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 1 2023/24	Quarterly Benchmark	Performance YTD 2023/24	2023/24 Benchmark	2023/24 Actuarial Target	RAG Indicator
Investment Return – Whole Fund	0.20%	0.10%	0.20%	0.10%	1.10%	

4.9 We have met our expected benchmark return for the quarter, although given the current market conditions, we are behind the actuarial target for the year.

4.10 The total Fund value at 30 June 2023 was £10.302bn

4.11 The Funding Level at 30 June 2023 is estimated at 156%. The value of liabilities has continued to fall, and even though the valuation of assets was flat over the quarter, the funding level has risen overall.

4.12 At the end of the quarter, 70.4% of the Fund's assets were being managed in pooled structures provided by Border to Coast.

Pension Administration Measures

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

Measure	2023/24 Quarter 1	2023/24 YTD	Previous Year: 2022/23	Target 2023/24	Movement
Proportion of priority cases processed on time	57%	61%	79%	100%	
Proportion of non-priority cases processed on time	69%	70%	73%	100%	
Proportion of all cases processed on time	67%	69%	68%	100%	
Proportion of employer data submissions on time	94%	94%	95%	100%	

4.15 This has been a challenging first quarter due to staffing shortages and difficulty finding temporary staff. For the majority of this first quarter, benefits staff were still spending time supporting work on Monthly Data Collection (MDC). However, the new MDC team is now fully staffed, and this is leading to a slight increase across our case processing performance going into the next quarter.

4.16 Work on capacity planning and analysis has been completed to provide evidence-based data on staffing needs. The outcomes from this are being worked through with the aim of presenting proposals to a Staffing Committee in the autumn.

4.17 The proportion of employer data submissions in the first quarter has remained largely consistent with the overall percentage for 2022/23. It is hoped that this proportion will improve over the rest of this year with the increasing focus from the dedicated MDC team working in close collaboration with the engagement team who are able to provide targeted support to employers.

4.18 At the end of the quarter, membership of the Fund stood at 177,621.

4.19 16 new employers were admitted to the scheme during the quarter, and there were no terminations completed.

4.20 There were 534 participating employers with active members at 30 June 2023.

Financial Measures

2023/24 Q1 Forecast Outturn

4.21 The quarter 1 forecast expenditure for the year and variance against the budget is as follows. Details of the significant variances are shown beneath the table.

South Yorkshire Pensions Authority Operational Budget	2022/23 Actuals £	2023/24 Budget £	2023/24 Q1 Forecast £	2023/24 Q1 Forecast Variance £	2023/24 Q1 Forecast Variance %
Pensions Administration	2,870,210	3,077,530	3,206,820	129,290	4.20%
Investment Strategy	526,760	635,770	627,630	(8,140)	(1.30%)
Resources	942,210	1,033,720	1,037,680	3,960	0.40%
ICT	720,340	972,975	938,470	(34,505)	(3.50%)
Management & Corporate	693,470	869,650	853,420	(16,230)	(1.90%)
Democratic Representation	152,540	145,920	165,100	19,180	13.10%
Subtotal - Cost of Services	**5,905,530**	**6,735,565**	**6,829,120**	**93,555**	**1.40%**
Capital Expenditure Charge to Revenue	89,820	72,000	72,000	0	0.00%
Subtotal before transfers to reserves	**5,995,350**	**6,807,565**	**6,901,120**	**93,555**	**1.40%**
Appropriations to / (from) Reserves	(66,360)	(150,000)	(177,000)	(27,000)	18.00%
Total	**5,928,990**	**6,657,565**	**6,724,120**	**66,555**	**1.00%**

4.22 The forecast outturn for the year before transfers from reserves is an over-spend of £94k. After the transfers from reserves, we are currently forecasting a remaining over-spend of £67k, equivalent to 1% of the budget total. The reasons for this are set out in the analysis below.

2023/24 Local Government Pay Award and Salary Expenditure Variances

4.23 The pay award for 2023/24 has not yet been agreed but the offer from the employers' side of the National Joint Council (NJC) has been made at an amount of £1,925 on all pay points up to 43, and at 3.88% for pay points above this, with effect from 1 April 2023. This offer was rejected by the unions and dialogue remains ongoing. For the purposes of budget forecasting, a pay award at this level has been built into the employee costs forecast for this year and is included in the forecast expenditure within each of the service areas shown in the table above.

4.24 The total forecast cost arising from this is approximately £287k, equivalent to 6.05% of the budget for employee pay and on-costs. The 2023/24 budget was set incorporating a pay award of 2%, plus a corporate contingency budget of £75k. Separately, a vacancy allowance of -2.5% of the pay budget was included to allow for staff turnover and the time that would be needed to recruit to several newly established posts included in the budget.

4.25 The first two columns of the table on the next page show the overall net impact of the forecast additional cost from the pay award partially offset by the corporate contingency budget, and the total under-spend forecast due to vacancies partially offset by the vacancy allowance. The net total impact across these two areas is a forecast overspend of just under £7k.

4.26 The main piece of work on the pay and benefits review is still being progressed, however one change arising from the findings of the original review was implemented with effect from 1 April 2023, and that was to increase the pay of Apprentices from the previous rate of just above the minimum wage level, to move them onto the bottom of the main pay spine instead. This decision was taken after the budget had been approved and therefore an over-spend of £26k is now forecast for the additional cost of implementing this measure.

4.27 In pensions administration, there are staffing costs arising from the use of casual staff in benefits team and in customer services, and additional overtime costs mainly in the benefits team. In previous years, these costs have been fully absorbed within under-spends due to staff vacancies and have therefore not been separately budgeted. For 2023/24, this is not the case and therefore a total over-spend of £75k is currently forecast due to the anticipated cost of staff overtime and casual staff cover this year. The use of overtime and additional hours from casual staff has increased for this year due to the requirement to target additional staff resources on addressing backlogs of casework processing.

4.28 The significant salary variances against each departmental budget are shown in the table below.

Salary Budgets – Variance Analysis	Additional Cost of Forecast Pay Award Offset by Corporate Contingency Budget £	Underspends Due to Recruitment Delays Offset by Vacancy Allowance £	Apprentice Pay Grade Uplift £	Overtime and Casual Staff Cover £	Total Over / (Under) Spend £
Pensions Administration	112,000	(84,000)	12,000	75,000	115,000
Investment Strategy	9,000	(3,000)	0	0	6,000
Resources	49,000	(64,000)	14,000	0	(1,000)
ICT	15,000	(50,000)	0	0	(35,000)
Management & Corporate - Departmental Budget	8,000	(30,000)	0	0	(22,000)
Management & Corporate - Corporate Budgets for Contingency and for Vacancy Allowance	(75,000)	118,550	0	0	43,550
Management & Corporate Net Total	**(67,000)**	**88,550**	**0**	**0**	**21,550**
Democratic Representation	1,000	0	0	0	1,000
Total	**119,000**	**(112,450)**	**26,000**	**75,000**	**107,550**

6,550

2023/24 Forecast and Explanation of Other Variances

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

4.30 Pensions Administration – Forecast Over-Spend £129k:

4.31 £115k forecast over-spend on salary budget as detailed in paragraphs 4.23 to 4.28 above.

4.32 There is an additional over-spend forecast on agency costs relating to interim cover for the Assistant Director – Pensions from April to November, partly covered by the saving due to the vacancy for the same period, the net over-spend is £48k.

4.33 Costs relating to hybrid mail are forecast to be (£10k) under budget, through the reduction in the number of physical documents being sent. The budget for 2024/25 will be set to reflect the reduction in usage.

4.34 The actuarial fees budget is forecast to be under-spent by (£16k), as one of the additional tools offered by the actuary and included in the budget has not yet been taken up. This is still under review and could be implemented later in the year or in 2024/25.

4.35 The address tracing budget is forecast to be underspent by (£10k), due to a new licencing arrangement that has resulted in savings. The reduction in costs will be reflected in a reduced budget for 2024/25.

4.36 A small over-spend of £2k is forecast on recruitment campaigns, legal fees and compensation for fund members based on the expected activity and requirements for this year.

4.37 Investment Strategy – Forecast Under-Spend (£8k):

4.38 £6k forecast over-spend on salary budget as detailed in paragraphs 4.23 to 4.28 above.

4.39 An over-spend of £3k is forecast on benchmarking costs following a new agreement with the provider entered this year after a number of years without any inflationary increases being applied.

4.40 An under-spend of (£16k) is currently forecast on legal and other professional fees based on the expected activity and requirements for this year. The main driver of this forecast under-spend is an additional professional licence for Bloomberg budgeted for, that has yet to be implemented.

4.41 A forecast under-spend of (£1k) in relation to public transport, through increased usage of hybrid meetings and working.

4.42 Resources – Forecast Over-Spend £4k:

4.43 (£1k) forecast under-spend on salary budget as detailed in paragraphs 4.23 to 4.28 above.

4.44 The recruitment budget is forecast to be over-spent by £5k due to having required the services of a specialist agency for two transactions officers; one of the posts was filled during 2022/23, however the other was delayed until 2023/24.

4.45 ICT – Forecast Under-Spend (£35k):

4.46 (£35k) forecast under-spend on salary budget as detailed in paragraphs 4.23 to 4.28 above.

4.47 The training budget is forecast to under-spent by (£2k) based on projecting from previous year actuals and known expenditure for 2023/24, this will be kept under review with encouragement and support for training being provided.

4.48 At this stage in the year, a net under-spend of (£23k) is forecast on the budgets for various software systems:

a) Investment accounting system forecast under-spend (£9k) – the supplier went into liquidation in May 2023 without notice. A contingency has been put in place to replace the system in the short term, at no cost to the Authority, using internal staff resource to develop a spreadsheet-based system.

b) UPM (Pensions Administration system) forecast under-spend (£7k) – a number of optional additional modules budgeted for are now not expected to be implemented in 2023/24, this saving is partly offset by the increasing annual cost due to inflation. The forecast will be kept under review.

c) HR & Payroll system forecast under-spend (£7k) – the procurement and implementation of the new system has been delayed until at least January 2024.

4.49 The budget for contractual income is forecast to be over-spent by £12k, as a result of income being less than the budget. The budget was set prior to the service level agreement calculations, at which point it was established that the growth in staff at the Authority, and reduction in staff receiving our services, meant the income due is at a reduced level.

4.50 The software and consumables budgets are forecast to be over-spent by £13k. The main drivers of the overspend are increasing contractual costs for Microsoft 365, software implementation costs and growing numbers of staff requiring licences and equipment.

4.51 <u>Management and Corporate – Forecast Under-Spend (£16k):</u>

4.52 £22k forecast over-spend on salary budget as detailed in paragraphs 4.23 to 4.28 above, including the corporate contingency and corporate vacancy allowance budgets.

4.53 The Oakwell House utility bills budget is currently forecast to be under-spent by (£20k), mainly due to the price of electricity reducing in recent months. The budget was set on a prudent basis without building in these potential reductions.

4.54 A budget for Oakwell House repairs and maintenance was created in 2023/24 and is forecast to be underspent by (£30k). The purpose of the budget is to spread the cost of any significant works over a number of years, such as a new roof. The under-spend will be transferred to Reserves at the end of the year.

4.55 The budget for HR services provided by Barnsley MBC under a service level agreement is forecast to be over-spent by £6k as a result of increasing the service provided from 3 days to 4 days per week with effect from September 2023, in order to provide the resource needed for the increasing workload.

4.56 The Multi-Functional Device (Photocopier) budget is forecast to be under-spent by (£5k). As the Authority has moved to being paperless the need for two MFDs dropped to one, and there has been a significant reduction in associated consumables. The reduction in costs will be reflected in a reduced budget for 2024/25.

4.57 An over-spend of £4k is currently forecast on insurance, other premises costs and travel fees based on the expected activity and requirements for this year.

4.58 The Health, Safety & Wellbeing budget is forecast to be overspent by £7k. The main drivers are occupational health costs and office related health and safety costs, which are both gradually having increased demands. This area will be kept under review through 2023/24 to ensure we set the budget for 2024/25 at the appropriate level.

4.59 Democratic Representation – Forecast Over-Spend £19k:

4.60 £1k forecast over-spend on salary budget as detailed in paragraphs 4.23 to 4.28 above.

4.61 The forecast additional cost of the 2023/24 pay award for members allowances is £4k. The pay award is forecast to be set at 3.88% in line with the current employer offer, with specific reference to the increase on spinal column point 43.

4.62 Following the decision approved by the Authority in June 2023 to expand the members' allowances scheme to include allowances for non-voting members of the Authority and for Local Pension Board members, there is a forecast over-spend of £13k for this year on the budget for member allowances. This will be built into the budgets from next year onwards.

4.63 A small over-spend of £1k is currently forecast on miscellaneous items such as travel and catering based on the expected activity and requirements for this year.

Earmarked Reserves

4.64 The table below shows the forecast transfers to and from all four of the earmarked reserves in 2023/24.

Reserve	Balance at 01/04/2023 £	Contributions to Reserves £	Contributions from Reserves £	Forecast Balance at 31/03/2024
Corporate Strategy Reserve	110,220	11,000	(66,000)	55,220
Pay & Benefits Reserve	200,000	0	(75,000)	125,000
ICT Reserve	78,030	10,000	(42,000)	46,030
Subtotal Revenue Reserves	**388,250**	**21,000**	**(183,000)**	**226,250**
Capital Projects Reserve	34,290	15,000	(30,000)	19,290
Total Earmarked Reserves	**422,540**	**36,000**	**(213,000)**	**245,540**
Net Total Transfer		**(177,000)**		

4.65 The planned transfers out of the Corporate Strategy reserve are to meet costs associated with the legal fees for the final stage of the Constitution review and providing for the costs of the retentions scheme this year. The transfer into the reserve is for setting aside of funds to meet the costs of the next investment strategy review due in 2026.

4.66 The planned transfer out of the Pay & Benefits reserve is to meet the additional costs currently being forecast related to the 2023/24 pay award.

4.67 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 and the procurement of the HR & Payroll system.

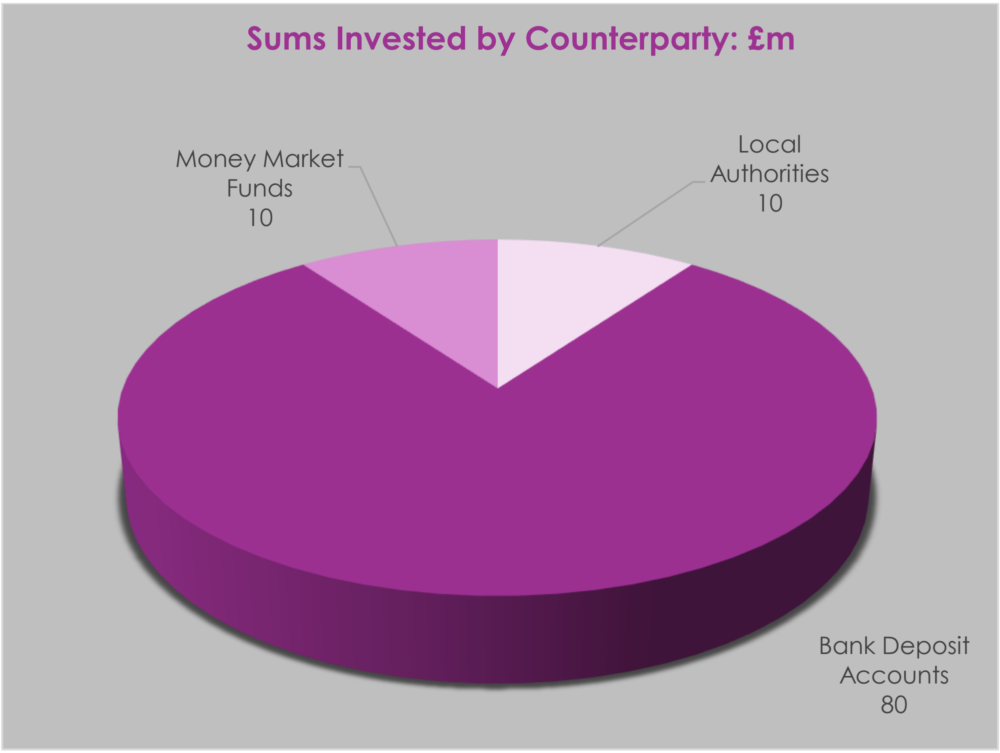
4.68 The transfer out of the Capital Projects reserve is to finance the capital expenditure incurred this year. The transfer into this reserve is setting aside of funds for meeting future costs of upgrades required to the office building.

4.69 The result of the above is a net total transfer out of reserves of £177,000.

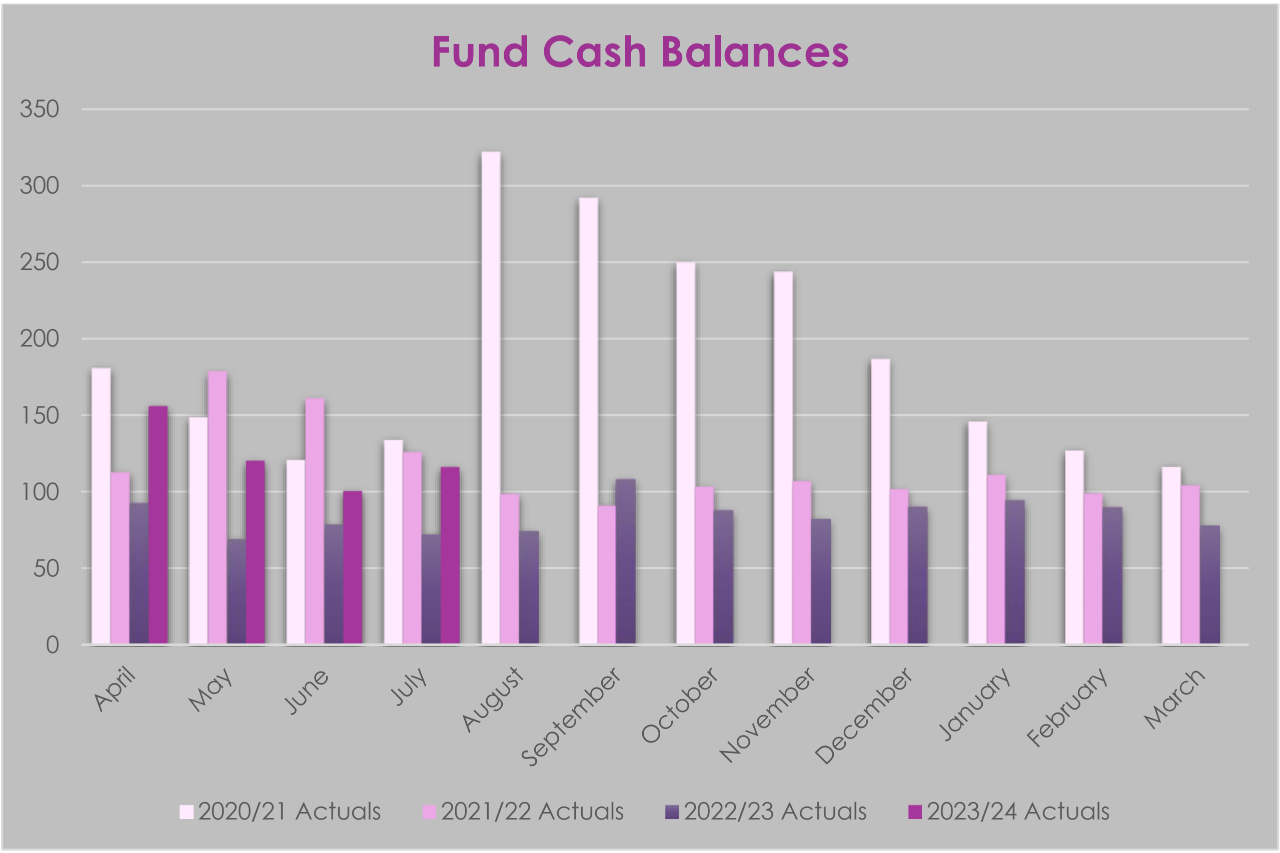
4.70 The forecast balance of the revenue reserves following the transfers proposed for the year is £226k in total, equating to 3.4% of the Authority's total revenue budget, and is well within the limit of 10% that we set for ourselves in the Medium-Term Financial Strategy for 2023/24 onwards.

Treasury Management

4.71 The Fund's cash balances at 30 June 2023 stood at £100.4 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.



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



4.73 Cash is only held pending Fund investment and the balance of cash at the end of the quarter represents 0.97% of the Fund, compared with 0.74% at 31 March 2023.

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 August 2023. The following changes were made.

Risk Scores Changed:

Risk O5 – Change to the CARE Revaluation date to bring it in line with the tax year. Current risk score reduced from 16 to 4.

5.3 All software updates were implemented successfully, and the delays did not result in any missed statutory deadlines. This risk has now reached its target score and will be removed from the next version of the risk register.

New Risks Added:

Risk O6 – Mismatch of resources and workload in Pensions Administration resulting in backlogs.

5.4 This is a new risk and has a high risk score at 16 (red). Existing control measures include the current performance management framework, a capacity planning exercise has been undertaken and an action plan considering a range of specific actions to address aspects of problems identified has been developed and is being worked through. The outcomes of the capacity planning exercise and focus groups recently held will be considered by members over the Autumn. However, this may take some time to have an impact. Continuation of implementation of the action plan (particularly the automation of certain bulk processes) will provide some mitigation in the interim.

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 Q1 2023/24	Received YTD 2023/24	Received in Previous Year: 2022/23
Complaints	7	7	24
Appeals Stage 1	0	0	4
Appeals Stage 2	2	2	4

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

6.3 The reasons behind the complaints received this quarter are almost evenly split between timeliness of response and quality of information provided. Responsiveness of AVC providers also remains a noticeable cause of complaints. Where possible changes are made to address the causes of complaint, for example through reminders to staff about particular issues.

6.4 Two Stage 2 Appeals were received and determined during the quarter; both related to ill health and neither was upheld.

Breaches of Law and Regulation

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

6.6 Two breaches were recorded this quarter.

6.7 One breach related to the release of information due to human error and this has been followed up with the staff concerned, although the information was not released beyond the relevant scheme employer.

6.8 The second breach concerned a cyber-attack on the hybrid mail supplier where affected members have been contacted and provided with appropriate advice.

6.9 We are in the process of settling claims in relation to five transfer cases which will result in a breach being reported to the Regulator in the next quarter.

Satisfaction Surveys

6.10 A survey of retiring members between February and April found that 91% of the 101 respondents were satisfied with the service they received. The main reason for dissatisfaction continues to be around lack of feedback being provided during the process. This is gradually being addressed.

6.11 A customer centre survey showed that of the 430 respondents, 81% were satisfied with the service they received. There is a marked decline in satisfaction which in part may be due to turnover of staff resulting in a less experienced team handling queries. Sources of dissatisfaction are around timeliness of response accuracy of responses and the need for repeat calls.

6.12 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 August meeting.

South Yorkshire Pensions Authority Risk Register As At
21 August 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
O6	Operational	Mismatch of resources and workload in pensions administration resulting in backlogs	N/A	20	
O5	Operational	Change to the CARE Revaluation date to bring it in line with the tax year	16	4	

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. As at May 2023 all members of Authority are 100% compliant against mandatory training requirements	**9**	P=M I=M	**6**	P=L I=M	Provide further internal seminars and examine options for more individualised "tuition". 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. ***Comment 21/08/2023 :*** *The current position is that 11 out of 12 Authority members are fully compliant, including the new Chair of the Authority.* *Members of SMT are delivering an additional layer of individual induction sessions on 23 August to new members.* *A full members' CPD away day is scheduled for 30 November for all Authority and LPB members to attend. This is to strengthen knowledge and skills and enable members to engage and work collaboratively to increase expertise across the organisation.* *The last review indicated that there may be a need to increase the risk score due to changes in membership however, on the basis of the above, it is felt that the additional risk has been mitigated sufficiently to avoid an increase in the risk score and it remains unchanged.*	Head of Governance		21/08/2023
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 As at May 2023 all members of LPB are 100% compliant against mandatory training requirements.	**6**	P=L I=M	**6**	P=L I=M	2023/24 will focus on supporting knowledge around the changing landscape; i.e. McCloud, Pensions Dashboard, TPR, Good Governance and the Procurement Bill. Bespoke training on specific topics has been identified to enhance LPB members knowledge. ***Comment 21/08/2023:*** *Members of SMT are delivering an additional layer of four departmental/service specific induction sessions on 23 August to new members.* *A full members CPD away day is scheduled for 30 November for all Authority and LPB members to attend. This is to strengthen knowledge and skills and enable members to engage and work collaboratively to increase expertise across the organisation.* *The last review indicated that there may be a need to increase the risk score due to changes in membership however, on the basis of the above, it is felt that the additional risk has been mitigated sufficiently to avoid an increase in the risk score and it remains unchanged.*	Head of Governance		21/08/2023

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
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 21/08/2023:*** *The supplier of the investment accounting system went into liquidation unexpectedly. This meant that access to relevant data became unavailable. An alternative locally based system was put in place as a temporary measure pending completion of the work to review services that can be provided by a custodian. This has proved successful and other organisations affected by the supplier liquidation have contacted us in relation to our temporary system.* *Other than the above, where effective mitigations were put in place, there has been no change to the position of this risk and therefore no change to the score. This risk will be looked at in more detail at the next review as part of the transfer of the register onto the new risk management system.*	Assistant Director Resources		21/08/2023
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. 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. ***Comment 21/08/2023:*** *This post is now vacant again but recruitment is currently taking place, the advert went live on 14 August and the closing date is 10 September. Interviews will be held on 25 September.* *The Project Management Toolkit is now in place and the Projects and Performance Officer is engaged in the projects across the organisation. The Interim Assistant Director - Pensions is leading on key areas and we are compensating with inputs to high risk projects.* *The above mitigations justify keeping the score at the same level at this review.*	Service Manager - Programmes and Performance		21/08/2023
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 21/08/2023:*** *.The position remains the same with no material changes, there is no justification to amend the score.*	Assistant Director Investment Strategy		21/08/2023

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
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. The new investment strategy includes for a separate category for renewables (5% with 2% already invested) and a 2.5% allocation for timber land investment.	**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 21/08/2023:*** *The new strategies have been introduced but these are still in the initial stages of implementation and too early to have had a material positive impact. There is no justification to reduce the score at this stage.*	Director		21/08/2023
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 21/08/2023:*** *The implementation of the plan is ongoing however there are no major changes and no justification to reduce the score.*	Director		21/08/2023
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 21/08/2023:*** *Still at target score on this risk. There are no changes since the last review but it will remain on the register due to potential fluctuating circumstances.*	Assistant Director Investment Strategy		21/08/2023
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 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. ***Comment 21/08/2023:*** Whilst the actual funding level has improved the underlying position remains the same. There is no justification for a reduction in the score at this stage.	Director		21/08/2023
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 Recent implementation of a new phishing attack prevention solution.	**16**	P=H I=H	**12**	P=M I=H	Additional testing of disaster recovery arrangements ***Comment 21/08/2023:*** *Office 365 security assessment has been completed and the ICT team are working through outcomes and actioning recommendations.* *Cyber Ess Plus assessment was completed successfully July 23.* *The ICT Team are currently investigating additional staff cyber awareness training, this solution will also allow implementation of structured phishing exercises .* *Whilst the above mitigations do further strengthen our assurances the risk score remains the same.*	Head of ICT		21/08/2023

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
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 Work continues to progress data cleansing ***Comment 21/08/2023:*** *The action plan is ongoing and the TPR score is high in relation to data quality. An exercise is taking place with GBG to undertake personal detail checks and enrichments and this may reduce the score at the next review however at this stage there is no justification to reduce the score.*	Assistant Director Pensions		21/08/2023
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. The DPIA and ISA have been approved by SMT	12	P=M I=H	6	P=M I=L	Increase in the volume of member correspondence managed through the member portal 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. ***Comment 21/08/2023:*** *The final internal review of the suite of Data Protection documents has taken place and will be presented to SMT for review and approval in September. The breach reporting process is under review with a view to enhancing the internal SharePoint workflow.* *Contact has been made with training providers to provide outline scope for on line Data Protection training with a view to this being delivered in the Autumn.* *Whilst there is no justification to reduce the score at this stage it is likely that the probability score will reduce at the next review.*	Assistant Director Pensions		21/08/2023
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 21/08/2023:*** *The position remains the same with no imminent publication of the revised code expected. Work continues to ensure assurance with the existing code however there is no justification to reduce the score at this stage.*	Head of Governance		21/08/2023
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	4	P=L I=L	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. ***Comment 21/08/2023:*** *All software updates are in place and delays did not result in any missed statutory deadlines. This risk can now be removed from the register.*	Director		21/08/2023

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
O6	Operational	Mismatch of resources and workload in Pensions Administration resulting in backlogs	Backlogs of work impacting on ability to process current workload resulting in declines in the overall level of service performance.	Assistant Director Pensions	Existing performance management framework. Capacity planning exercise has been undertaken. An action plan considering a range of specific actions to address aspects of problems identified has been developed and is being worked through.	**16**	P=H I=H	**6**	P=M I=L	Capacity planning exercise and focus group outcomes will be considered by members over the Autumn. However this may take some time to have an impact. Continuation of implementation of the action plan (particularly the automation of certain bulk processes) will provide some mitigation in the interim.	Assistant Director Pensions		21/08/2023
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. 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. ***Comment 21/08/2023:*** *While work continues to put in place further mitigations and complete the pay and benefits review, recent recruitment activity has proven successful. At this stage there is no cause to change the score.*	Director		21/08/2023
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	**12**	P=H I=M	**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 ***Comment 21/08/2023:*** *A permanent appointment to the vacancy has been made and the successful candidate will be in post in November.* *Further potential actions to address the deficits in technical knowledge have been identified and will be presented to elected members for discussion over the Autumn. At this stage it is not felt appropriate to reduce the score although some reduction is likely later in the year.*	Director		21/08/2023

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Upstarts and Downpours.

Last quarter we spoke about the surprisingly resilient start to the year in markets and concluded that much remained a mystery as 2023 unfolded. Now, as we have passed the mid-point of the year, one thing is apparent. If 2022 was the flameout - 2023 is the comeback kid.

In 2022, bonds and equities buckled in widespread selling, but in 2023 stock markets – the US in particular - have bounced back with a strong tilt towards tech. Private markets, real estate, energy importers, small businesses – most have averted their much-touted demise, and it does seem at this stage that all commentators must question whether traditional relationships hold. We are in a new regime, that is for sure – but why should the new regime not have new rules, new relationships, and new nuance?

The post-Covid recovery has certainly been uneven – take, for example, the sharp divergence between the recovery of economies in Europe and North America, while China has struggled to right itself after its prolonged Covid shutdown. Did China essentially shut down for too long and in too extreme a fashion so as to render itself irrelevant?

Elsewhere (notably not in China) interest rates have continued to rise. The odd part is that this did not crimp economic activity as expected nor did it put a dent in robust employment numbers. Yet with these rising rates we did, ultimately, see inflation moderate. Is this the Goldilocks economy 2.0 – not too hot, not too cold, but just right? In this it feels awfully close to the great moderation of Goldilocks 1.0. Instead of "lower for longer" interest rates though we seem to be coming around to "higher than longer".

Higher for longer comes with a steep learning curve though. Most market participants have been weaned on lower interest rates meaning cheap borrowing and yield chasing-behaviour. Being able to earn a higher interest rate on cash changes a lot. It changes the level at which money can essentially be invested on a risk-free basis, and therefore raises the bar for other asset returns.

Higher rates also change corporate behaviour, while banking woes have changed banking behaviour. Higher energy and food prices are changing consumer behaviour and a surging interest in artificial intelligence is undermining what we thought we knew about working behaviour.

Amid all of this change has been the rain – the downpours which saw some parts of the country experience its wettest July ever. Even the seasons aren't conforming to plan this year. It certainly hasn't felt like summer. So what has this very non-conformist period held:

Key Developments since the last quarterly update:

- **Inflation at the end of the beginning –** Following on the theme of last quarter, inflation numbers in the US have come in remarkably, while the UK is the recalcitrant child of developed markets with its number staying stubbornly high at over 7%, although lower than at its peak.
- **Interest rate expectations shift as higher for longer takes hold** Surprising economic resilience kept central banks on a tightening path and rhetoric emerged around "higher for longer" – as long as two years in the case of the Bank of England. The authorities remain data dependent and resolute but as was recently seen with China – which lowered its short-term rate in response to a slackening economy – there is still the potential for surprise.
- **Downpours . . and Downgrades** As the rain fell, so did credit ratings as the US saw a spate of downgrades to the country itself (by Fitch) and a basket of regional banks (by S&P) in mid-summer. The country's downgrade came following a fraught period before the raising of the US budget ceiling when the possibility of default on sovereign debt was raised but not really deemed likely. The downgrade of a group of banks was part of a greater reaction to poor bank outlooks as they wrestle with the impact of higher rates. This failed to roil markets as banks had been sold off mostly in advance, but it did send some jitters through the system as there was a fear of more contagion and institutional fragility.
- **A bull in the China shop.** China exited some of the most stringent and prolonged Covid lockdowns anywhere somewhat suddenly but the restart to the economy has been fraught. Poor trade numbers released in July showed that both imports and exports had fallen in July and the property sector, in particular, seemed under strain. The slump in growth spurred the central bank to cut rates there – albeit by a modest amount. Overall the sluggishness that is persisting in China is a surprise to markets and evidences the impact of more reshoring and protectionist trade policies..

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Current Macro Snapshot

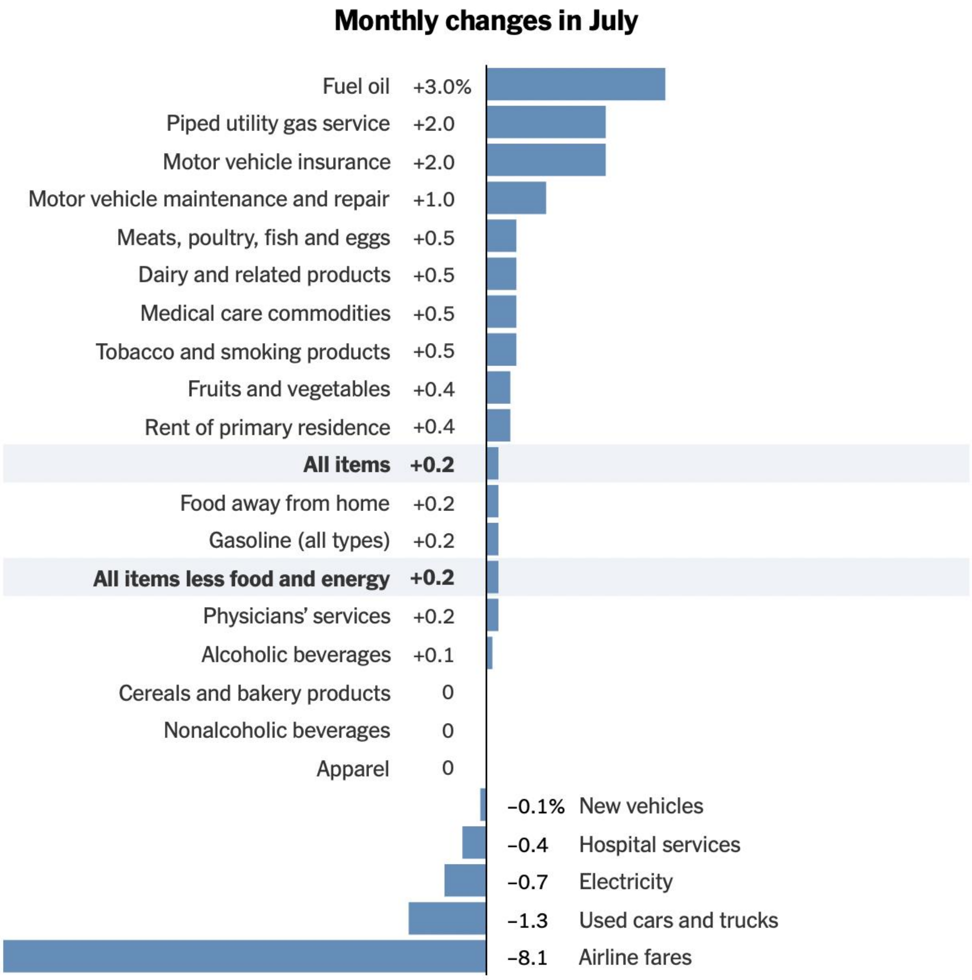
Stuck in the Mud

It is now close to one year since the "doom loop" of the Gilt crisis gripped the UK, when a wide-scale loss of confidence in the UK government led to a collapse of demand for UK gilts, which was then exacerbated by forced selling by the holders of those gilts as they sought to reduce leverage levels. Much has changed in messaging and outward perception since the Kwarteng/Truss Mini-Budget and the change in guard that followed. However, the "dye was cast" by this series of events, and in recent weeks Gilts have again sold off at times, nearing the same yields seen at the time of the crisis. There is no "one" crisis this time – rather a reckoning around the persistence of high rates as guided by the Bank of England. The current activity is more in sync with the movement in global bond yields too and so less of an outlier.

Despite this restoration of confidence though and a strengthening of Sterling, there is a still a sense that the UK economy is somewhat "stuck in the mud". Inflation has been stickier and slower to shift than in other economies like in the US and Europe and the wage spiral cited by the Bank of England in recent press releases could well choke off growth. Inflation in the UK was most recently published as 7.9%, the lowest inflation rate since February 2022, and notably down from the period between September 2022 and March 2023, when the country experienced seven months of double-digit inflation which peaked at 11.1% in October 2022.

The UK also struggles to capture a piece of the tech momentum in equity markets due to the overwhelming "old economy" tilt in the FTSE. Foreign investment is subdued since both Brexit and the Gilt market crisis and institutional investors like pension funds remain impaired and in retreat following the bruising that it caused.

If we look at inflation on a global scale it is coming down markedly. The last (July) print in the US was comprised of movement in the following sub-sectors:



June-to-July changes in a selection of categories of the Consumer Price Index, adjusted for seasonality. • Source: Bureau of Labor Statistics • By Karl Russell

Even after a slight increase in energy prices overall, inflation remains closer to 3% year on year, which has more than halved since its peak.

Central banks seem a little "stuck" too. They are stuck in their own loop of commitment to a low (often 2%) inflation target and an interest rate tightening cycle that, according to the textbooks, should have resulted in a recession by now. But yet . . While the US Fed has already paused once, now, after 11 rate hikes at 12 meetings and a rate of 5.25-5.5% it seems ready to pause again. The ECB and the Bank of England have sent no such message, although the pace of rate hikes has slowed. The ECB last raised rates by 25 bps in July to a high of 3.75% (last seen in 2001), while the Bank of England recently added 25bp for its 14th consecutive rate hike. UK rates now sit at 5.25%, the highest level since 2008.

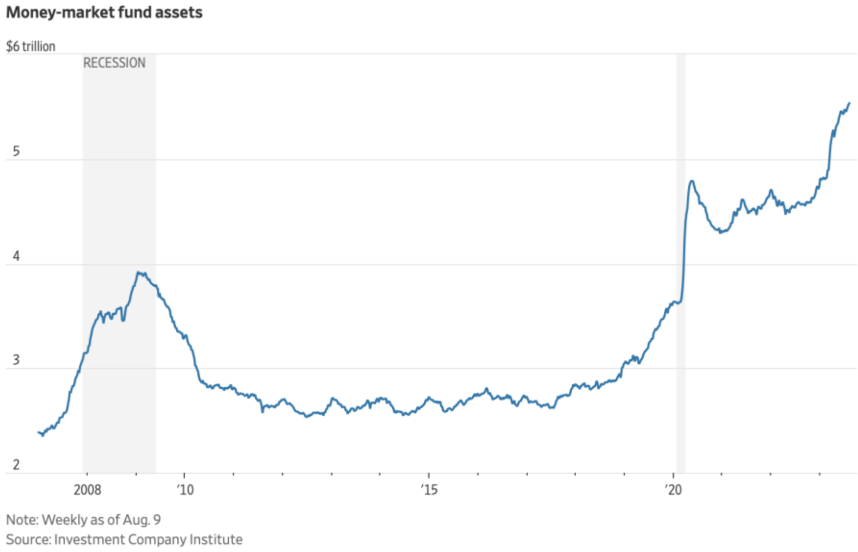
Another thing that is stuck is their credibility. It is only in the past few weeks that bond markets have started to "believe" that rates might stay higher for longer, despite little shift in central bank messaging around this plan. The yield curve in the US had been "inverted" for months – with shorter term rates higher than longer term rates, a traditional harbinger of a recession and reflecting a belief that rates would be coming down in the medium term as the economy weakened due to the expected “recession”. Only when this recession seemed like it wouldn’t, in fact, bite, did bonds start to sell off, which is where we are today.

Meanwhile, over in equity markets, all eyes remain on AI. This fascinating “word bubble” by HSBC and reproduced in Bloomberg shows the prevalence of this term in second quarter earnings discussions.

Where the money is – and where it is going:

Other potential reasons for the “it’s different this time” thesis is that there are, arguably, different power centres at play this time than in previous cycles. Last quarter we spoke about the crisis in US regional banks and how the crisis in Silicon Valley Bank had sparked a very “new-fashioned” bank run. The modern bank-run is digitally powered and is therefore far faster and savage than prior ones which might have relied on real live tellers and paper withdrawal slips.

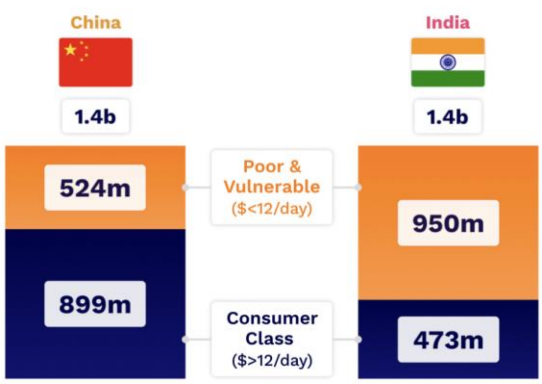
As the chart below shows, much of the assets that might otherwise be in bank deposits have ended up in Money Market Funds, were assets now top $5 trillion. This represents significant “dry powder” on the sidelines, poised to enter equity markets to pick up bargains or to enter other risk assets when they come into fashion.



We spoke in the past about the role that banks are playing in credit extension now, and how it is not what it once was. The rise of the supplier of private credit has eroded the market share and exclusive position of banks in the capital market landscape, and that is diluting the impact of some of the banking strain on companies needing credit.

Another power centre of recent decades has been China, and we have already discussed how impaired that country has looked in recent years. In many of our conversations with Emerging Markets managers India is rising in popularity for stock picking and, as the chart shows below, is already equal to China in terms of population. With a smaller consumer class as a percentage of the population and more room for social mobility there is more upside potential it seems. It will be interesting to watch how these shifts in momentum will power flows in the decade to come.

Figure 1. India and China: Same population, different consumer class (2023)



Source: World Data Pro, 2023

Sterling firms but then flatlines

Sterling continued to benefit from the stronger than expected performance of the UK economy over the quarter, although the sluggishness of economy growth paired with the stickiness of inflation led to some give back towards the end of the summer. The dollar stabilized after some earlier weakness and despite the recent country level downgrade there hasn't been much in the way of discussion of "de-dollarization" of late – perhaps due to the weaker positioning of China on the world stage. In fact, there has even been rhetoric suggesting that "dollarization" such as what occurred in Ecuador and other Latin American regions, could be the answer to some of the woes of a country such as Argentina. Due to the heavy weight in dollars in the SYPA portfolio, any dollar weakening will erode the returns from dollar-denominated assets.

Individual Asset Class Performance.

- Equities
- Fixed income
- Other asset classes

The chart below shows recent performance in main equity indices (at August 23, 2023)

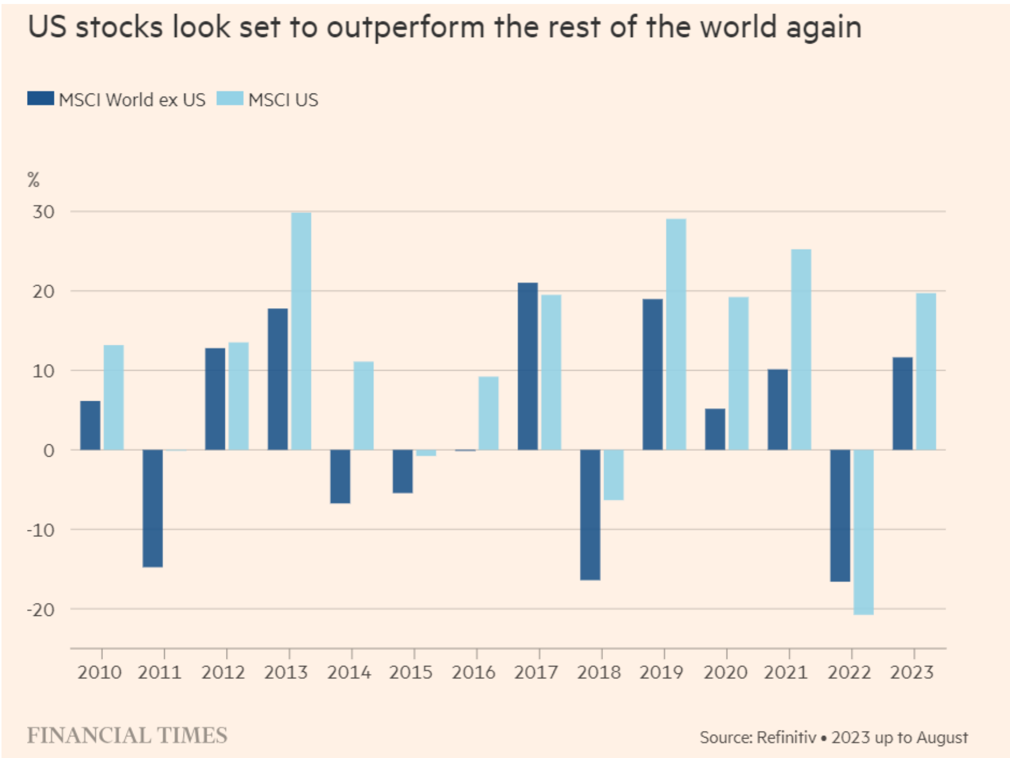
Equity Index	Year to date (August 23, 2023)	1 year
FTSE 100	-1.76%	-2.02%
S&P 500	15.54%	5.64%
Nasdaq	31.09%	8.56%

Dax (Europe)	12.96%	18.97%
Hang Seng	-7.922%	-8.79%
Shanghai Comp	0.28%	-4.57%

Equities: The Same Song – On Repeat

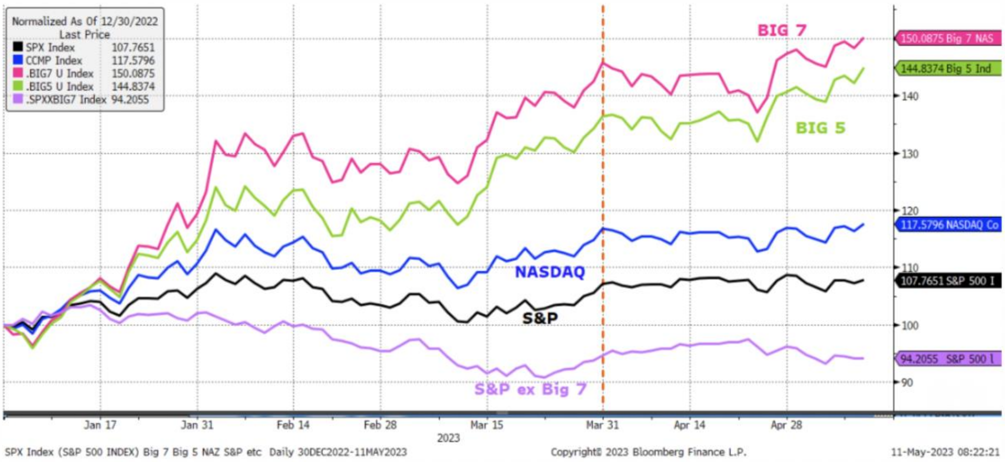
The themes of equity market strength year to date have been surprise – at the comeback – concentration – around the "big seven" stocks that have dominated headlines and buying action, and the AI hype cycle that is driving a frenzy of interest in any stocks exposed to artificial intelligence as well as its component parts such as chipmaker Nvidia. As the chart below shows, the dominance of the US is continuing and the US is outperforming the rest of the world again. Most notable have been the collapse in year to date returns in the UK as well as Asia. While much of the Asian movement will have been driven by China, the UK loss of ground is more confounding.

As the chart below shows the US is again outperforming the rest of the world and this is driving flows in to domestic equity market funds there.



For a global investor such as the pension fund, this will bode well given that a significant amount of assets are invested in US equity markets. We used the chart below last quarter to illustrate the divergence in performance across different stocks and the prevalence of the "big seven".

Big 7, Big 5, NASDAQ, S&P, and S&P ex Big 7 year-to-date.



Most equity-watchers have an eye on earnings, and as we write, earnings reporting is almost over: with nearly 90% of companies across the US & Europe having reported earnings. Generally, although earnings were weak, off around 1% year-on-year in the US and 8% down in Europe, most companies were able to outperform weak consensus estimates (highlighting the importance of properly guiding those estimates!). Tech stocks are continuing to outperform other sectors and, interestingly retail is taking a particular bashing in recent days. Apparently, not only are sales down, but they are being impaired by increased “shrinkage” or shop-lifting activity (on which more below).

Fixed Income: Relentless

After 14 consecutive rate hikes the Bank of England has been somewhat relentless in its quest to beat inflation, and it is fair to say that the task in the UK has been more complex and urgent than in other countries. Now the bank seems resolute that the time period for which such high rates will have to remain is around 2 years at least. Gilt markets have responded by selling off – as discussed earlier but the upside is that cash rates are now attractive, even on a post-inflation basis, now that inflation has come down. We will continue to explore ways within the portfolio to take advantage of higher yielding short term government debt as cash substitutes.

There is a lot of confusion around the US 10-year yield "breaking out" above 4% - is it because the economy is strong and higher rates are here to stay? Or is it because of the soft landing so the Fed won't have to cut? Bonds remain a source of ballast and a refuge in a flight to safety in markets, but the volatility being experienced in the asset class recently is actually making them seem less stable. All in all the recent bond action doesn't seem to point to recession – as the inverted yield curve heads towards a "disinversion" - but could the higher rates themselves be a tipping point for lenders? Time will tell.

Other asset classes/Spotlight:

During the quarter the consultation on local government pooling received quite a bit of attention and in particular the suggestion that private assets should have a target allocation of 10%, with some of them earmarked for UK investment projects. This somewhat crude amount and definition is causing some consternation within investor circles, and it seems particularly ironic now when the outlook for private equity is far from clear.

As we discussed last quarter, private equity is not forced to mark assets to market on a daily basis and valuations have been slow to adjust to comparable public market valuations. Recent press coverage suggests that there are some pockets of distress within the sector but that it is largely playing out behind the scenes and kept quiet, particularly as the lenders of credit facilities are not banks but other private equity firms. There have still not been many valuation adjustments so returns will still appear robust but the opacity and illiquid nature of this asset class is one of the reasons for concern about the pooling consultation suggestion.

Outlook. . .Predictions – for what they are worth?

Over the summer the same narratives that persisted earlier in the year have continued. Inflation anxiety peaked and then receded quite rapidly, without much celebration. Predictions seemed to be abundant, and therefore lost their value.

In coming months we will be watching in particular:

- **It ain't all good.** While the consumer, on average, seems to be doing well, it seems that there is growing strain in certain parts of the consumer base. As noted earlier, there is a higher incidence of "shrinkage" or theft at retailers, mortgage rates in the US have crossed 7% which is close to a 20 year high, while in the UK they are also multiples of prior cut rates and childcare costs in particular are spiralling with no end in sight. This squeeze of the blue-collar worker will cause both societal stress and high-profile policy failures such as a rise in homelessness. This will increase political pressure and fractures and could well become divisive political fodder in the US presidential election of 2024.
- **A quiet retirement of ESG activity in places.** Since some of the pushback against the term "ESG" and the attendant policies there is evidence of a pull back of support from climate resolutions and other activism[1]. Blackrock, in this case, claimed that some environmental resolutions were overly prescriptive and not sufficiently flexible, and this is clearly part of an

[1] https://www.bloomberg.com/news/articles/2023-08-23/blackrock-backs-fewer-climate-social-shareholder-proposals

evolving approach to the debate. We don't expect it to be the final salvo however, as the massive shareholder led momentum behind change and a drive towards sustainability has not abated, but it does seem ripe for a course correction.

- **More exploration of the "higher for longer" reality.** We are still watching the experiment of significantly higher rates and watching expectations for their duration shifting. It is natural therefore that collateral damage to companies and banks, as examples, will only play out over time. The long-term effect of these higher rates is key to observe.

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August 23, 2023

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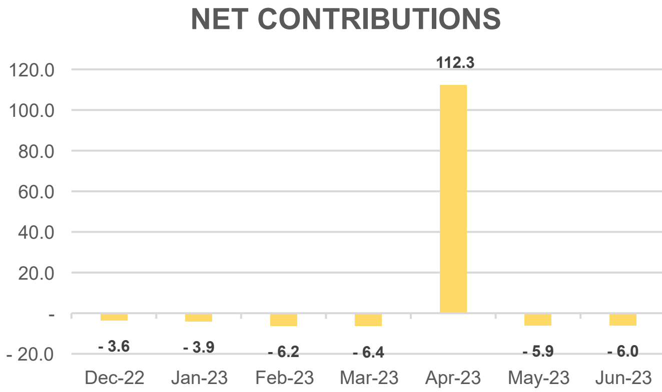
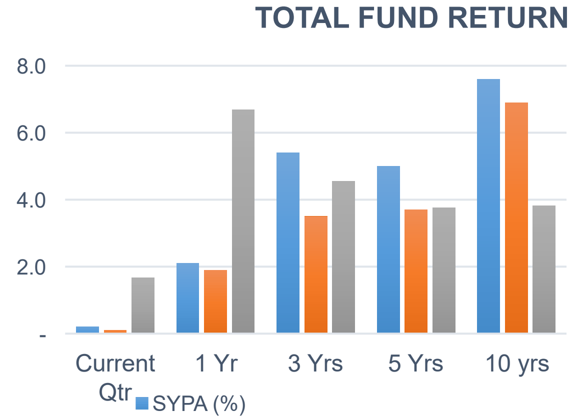
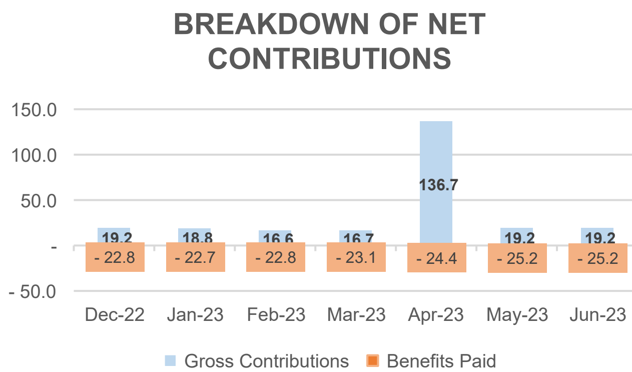
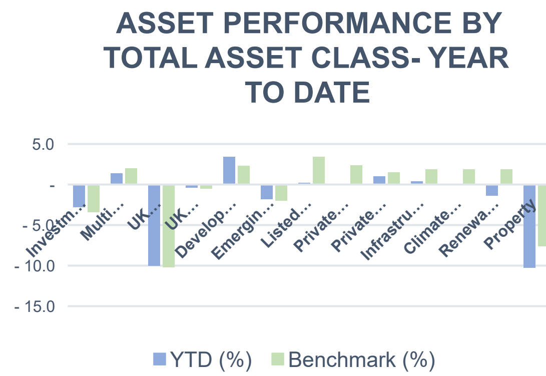
SOUTH YORKSHIRE PENSIONS AUTHORITY

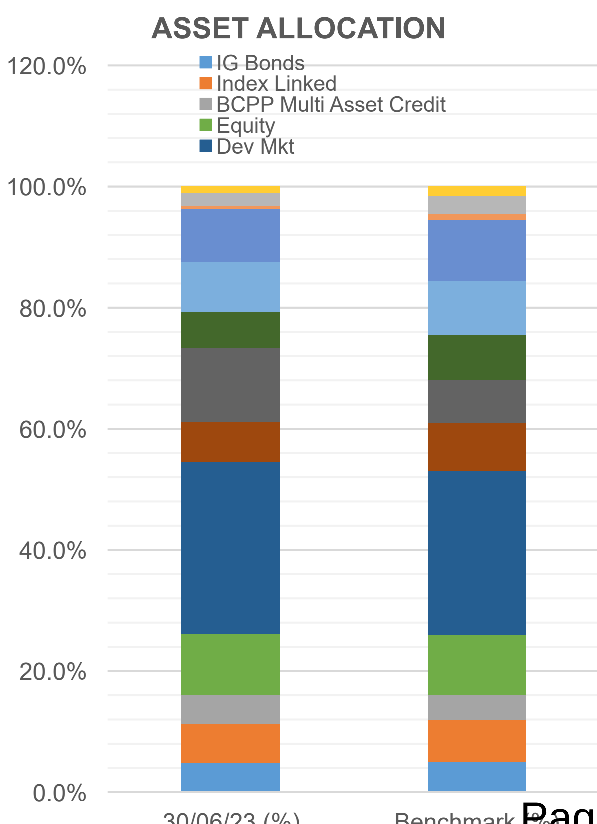
QUARTERLY REPORT TO 30 JUNE 2023

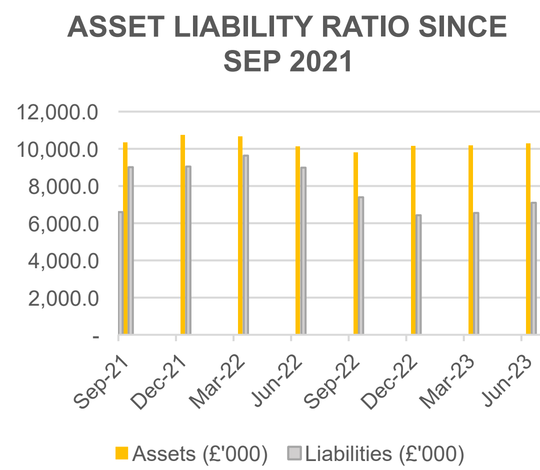

NET CONTRIBUTIONS
120.0
100.0
80.0
60.0
40.0
20.0
-
- 20.0
112.3
- 3.6
- 3.9
- 6.2
- 6.4
- 5.9
- 6.0
Dec-22
Jan-23
Feb-23
Mar-23
Apr-23
May-23
Jun-23

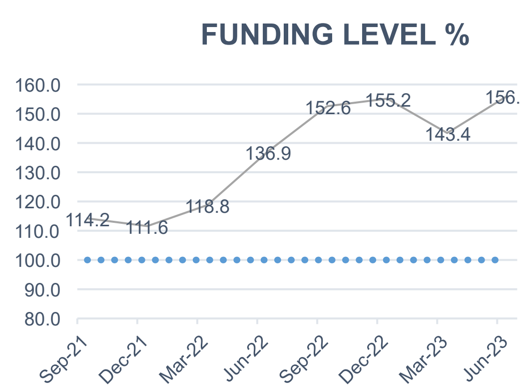

TOTAL FUND RETURN
8.0
6.0
4.0
2.0
-
Current Qtr
1 Yr
3 Yrs
5 Yrs
10 yrs
SYPA (%)


BREAKDOWN OF NET CONTRIBUTIONS
150.0
100.0
50.0
-
- 50.0
19.2
18.8
16.6
16.7
136.7
19.2
19.2
- 22.8
- 22.7
- 22.8
- 23.1
- 24.4
- 25.2
- 25.2
Dec-22
Jan-23
Feb-23
Mar-23
Apr-23
May-23
Jun-23
Gross Contributions
Benefits Paid


ASSET PERFORMANCE BY TOTAL ASSET CLASS- YEAR TO DATE
5.0
-
- 5.0
- 10.0
- 15.0
Investm...
Multi...
UK...
UK...
Develop...
Emergin...
Listed...
Private...
Private...
Infrastru...
Climate...
Renewa...
Property
YTD (%)
Benchmark (%)


ASSET ALLOCATION
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
IG Bonds
Index Linked
BCPP Multi Asset Credit
Equity
Dev Mkt
30/06/23 (%)
Benchmark (%)


ASSET LIABILITY RATIO SINCE SEP 2021
12,000.0
10,000.0
8,000.0
6,000.0
4,000.0
2,000.0
-
Sep-21
Dec-21
Mar-22
Jun-22
Sep-22
Dec-22
Mar-23
Jun-23
Assets (£'000)
Liabilities (£'000)


FUNDING LEVEL %
160.0
150.0
140.0
130.0
120.0
110.0
100.0
90.0
80.0
114.2
111.6
118.8
136.9
152.6
155.2
143.4
156.1
Sep-21
Dec-21
Mar-22
Jun-22
Sep-22
Dec-22
Mar-23
Jun-23

Market background

For most of the quarter uncertainty continued as inflation proved to be more stubborn than anticipated and interest rates continued to rise over the period. After protracted negotiations, an agreement to suspend the US debt ceiling until January 2025 was reached in May, removing the risk of default. Equities rallied towards the end of the quarter with advances led by the US market as technology stocks were boosted by enthusiasm over A.I. while emerging markets lagged. Chinese markets fell as poor economic data in China resulted in the Chinese Central Bank lowering interest rates.

Globally, government bond yields rose again although there was divergence across markets. The UK underperformed because although we have seen a drop from the 11% peak last year inflation remains above 8% as wages, housing and core prices that exclude energy and food remain stubbornly high. The resolve by the Bank of England to combat inflation saw an increase in interest rates by a larger than expected 50 basis points in June. With the exception of the Bank of Japan, all major central banks raised interest rates over the quarter. However, the Federal Reserve paused in June, leaving rates at 5%. They have announced that the next move will be data dependent. It is now expected that interest rates will remain higher for longer.

UK Index-Linked bonds had significant negative returns as the UK 10 year yield jumped from 3.49% to 4.39%. Sterling Investment Grade credit although also giving negative performance outperformed and high yield bonds outperformed UK investment grade.

Commodity indexes showed a negative performance over the quarter. Industrial metals and energy were the worst performing sectors. Within industrial metals, zinc, nickel and aluminium were all sharply lower in the quarter. Within energy, prices for crude oil, Brent crude, heating oil and gas oil all declined, while prices for natural gas and unleaded gasoline were modestly higher.

Market background

Pricing began to stabilise in the property market during the quarter, particularly in those areas of the market that had seen the greatest capital declines. All property sectors posted positive total returns with residential being the strongest performing sector and offices the weakest performing sector. While performance has improved, transaction activity was muted with volumes down 64% on the same period a year earlier , and 63% below the 10-year quarterly average.

Fund Valuation

as at 30 June 2023

	Mar-23		Quarterly Net	Jun-23		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	435.8	4.3	80.0	496.2	4.8	5	
UK ILGs - BCPP	702.9	6.9	0.0	633.3	6.2	7	
UK ILGs SYPA	37.9	0.4	0.0	33.6	0.3		
MAC - BCPP	562.7	5.5	-84.7	484.7	4.7	4	
TOTAL	**1739.3**	**17.1**	**-4.7**	**1647.8**	**16.0**	**16**	**Nov-21**
UK EQUITIES	**1057.7**	**10.4**	**0.0**	**1053.9**	**10.2**	**10**	**5 _ 15**
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2845.9	28.0	-20.0	2922.6	28.4	27.125	
Emerging Market - BCPP	695.8	6.8	0.0	683.3	6.6	7.875	
Emerging Market - SYPA	0.8	0.0	0.0	0.7	0.0		
TOTAL	**3542.5**	**34.8**	**-20.0**	**3606.6**	**35.0**	**35**	**30-40**
LISTED ALTERNATIVES -BCPP	**155.8**	1.5	**0.0**	**156.1**	1.5	0	
PRIVATE EQUITY							
BCPP	246.1		26.0	279.4			
SYPA	835.7		-1.9	825.7			
TOTAL	**1081.8**	**10.6**	**24.1**	**1105.1**	**10.7**	**7**	**5_9**
PRIVATE DEBT FUNDS							
BCPP	115.6		9.9	129.5			
SYPA	477.5		-4.7	473.7			
TOTAL	**593.1**	**5.8**	**5.2**	**603.2**	**5.9**	**7.5**	**5.5-9.5**
INFRASTRUCTURE							
BCPP	324.8		48.2	375.8			
SYPA	696.8		-0.8	476.4			
TOTAL	**1021.6**	**10.0**	**47.4**	**852.2**	**8.3**	**9**	**6_12**
RENEWABLE ENERGY			**18.0**	**209.5**	**2.0**	**3**	**1_5**
CLIMATE OPPORTUNITIES	**30.9**	**0.3**	**6.1**	**60.2**	**0.6**	**1**	**0-3**
PROPERTY	**862.1**	**8.5**	**23.9**	**890.9**	**8.6**	**10**	**8_12**
CASH	**97.1**	**1.0**		**116.7**	**1.1**	**1.5**	**0-2.5**
TOTAL FUND	**10181.9**	**100.0**		**10302.2**	**100.0**	**100**	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	**1579.8**			**1562.4**			

Asset Allocation Summary

After the agreement by the Authority of the new strategic benchmark in March, we introduced the first changes to the benchmark from 1st April. The new categories of Renewables and Climate Opportunities were introduced and further changes to weightings will be made as commitments are made to these new categories. Work will be undertaken on the Natural Capital category and this will be added when possible.

We continued to reduce our overweight position to listed equity funds. We sold £20m from overseas developed equities and together with the prepayment contributions received from some employers in April we funded £100m of drawdowns to the alternative asset classes, with £6m invested in Climate Opportunities, £18m into Renewable funds, £47m into other infrastructure funds, £5m into private debt funds and £24m into private equity funds.

Within bonds we switched £80m from the MAC portfolio to Sterling Investment Grade Credit to rebalance the weightings.

Within property there were further drawdowns on the CBRE loans and we bought the freehold interest in 1 Acre Road, Reading for £450,000 (we already held a long leasehold interest in the asset).

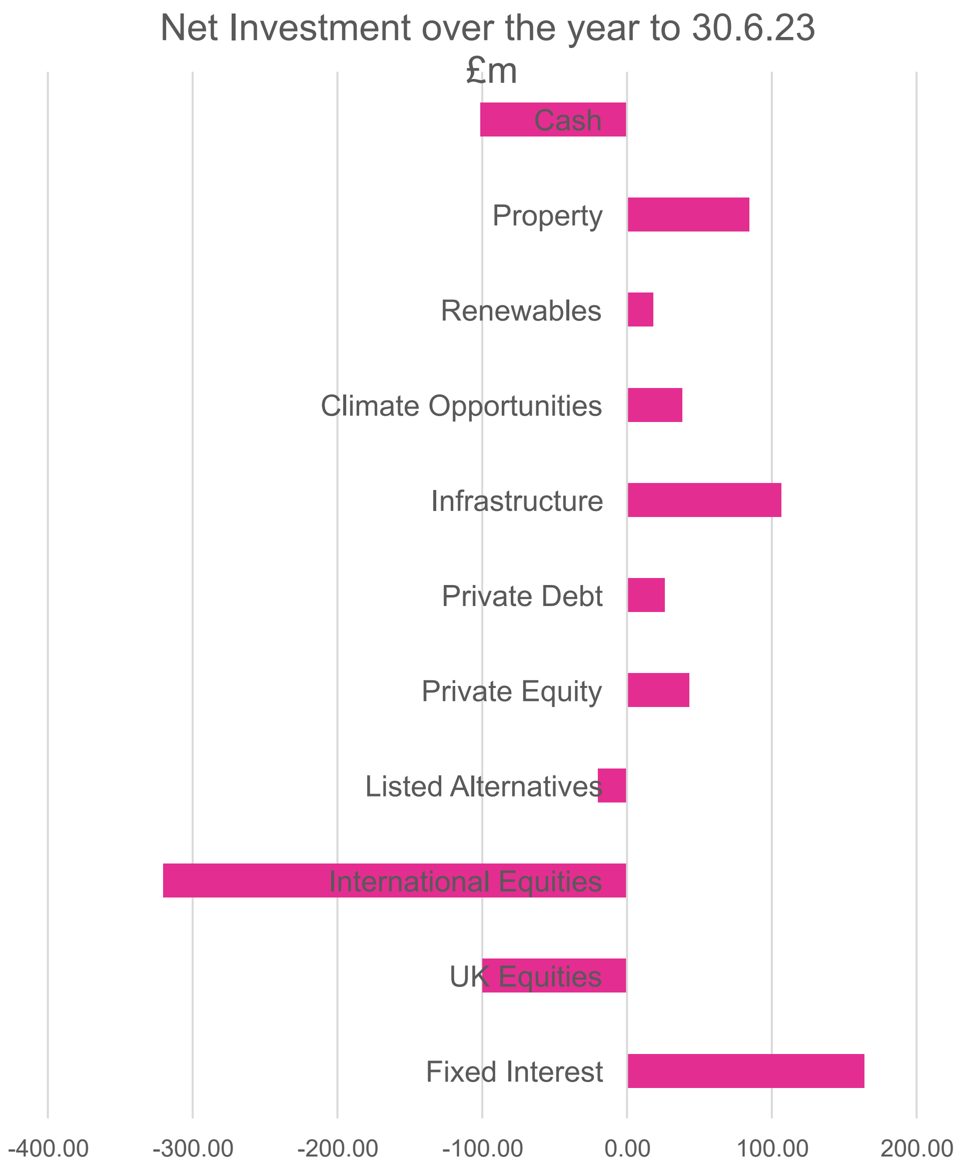
After the trades mentioned above there is now only one category that is outside its tactical range and this is private equity.

We have seen a slight 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.

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	7	5 - 9	666.9	6.5	-0.5
Sterling Inv Grade Credit	5	4 - 6	496.2	4.8	-0.2
Multi Asset Credit	4	2 - 6	484.7	4.7	0.7
UK Equities	10	5 - 15	1053.9	10.2	0.2
Overseas Equities	35	30 - 40	3606.6	35.0	0.0
Private Equity	7	5 - 9	1105.1	10.7	3.7
Private Debt	7.5	5.5-9.5	603.2	5.9	-1.6
Infrastructure	9	6 - 12	852.2	8.3	-0.7
Renewables	3	1-5	209.5	2.0	-1.0
Listed Infrastructure	0	0-2	156.1	1.5	1.5
Climate Opportunities	1	0-2	60.2	0.6	-0.4
Property	10	8 - 12	890.9	8.6	-1.4
Cash	1.5	0.5 - 2.5	116.7	1.1	-0.4
Total	100		10302.2	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 30 June 2023

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	-2.8	-3.4	-2.8	-3.4
UK ILGs	-10.0	-10.2	-10.0	-10.2
Multi Asset Credit - BCPP	1.4	2.0	1.4	2.0
UK EQUITIES	**-0.4**	**-0.5**	**-0.4**	**-0.5**
INTERNATIONAL EQUITIES				
Developed Market - BCPP	3.4	2.3	3.4	2.3
Emerging Market - BCPP	-1.8	-2.0	-1.8	-2.0
TOTAL	**2.4**	**1.3**	**2.4**	**1.3**
PRIVATE EQUITY	**-0.1**	**2.4**	**-0.1**	**2.4**
PRIVATE DEBT FUNDS	**1.0**	**1.5**	**1.0**	**1.5**
INFRASTRUCTURE	**0.4**	**1.9**	**0.4**	**1.9**
RENEWABLES	**-1.4**	**1.9**	**-1.4**	**1.9**
CLIMATE OPPORTUNITIES	**0.0**	**1.9**	**0.0**	**1.9**
PROPERTY	**1.3**	**1.2**	**1.3**	**1.2**
CASH	**1.1**	**1.1**	**1.1**	**1.1**
TOTAL FUND	**0.2**	**0.1**	**0.2**	**0.1**

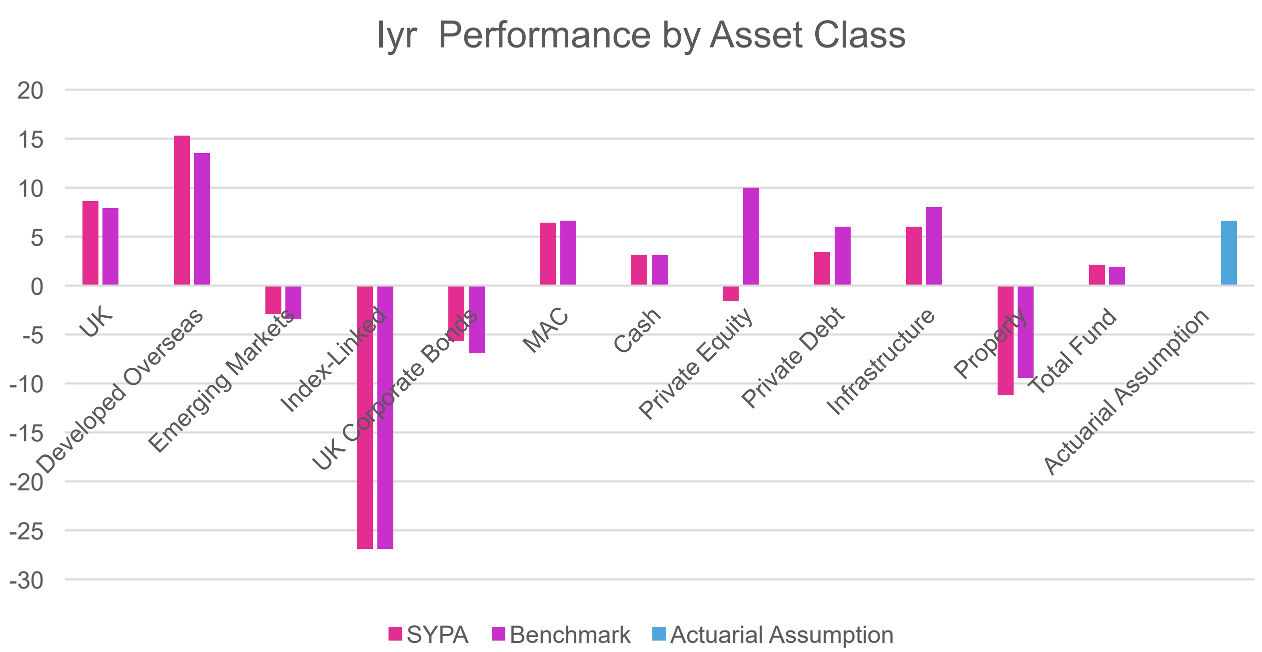
Performance Summary

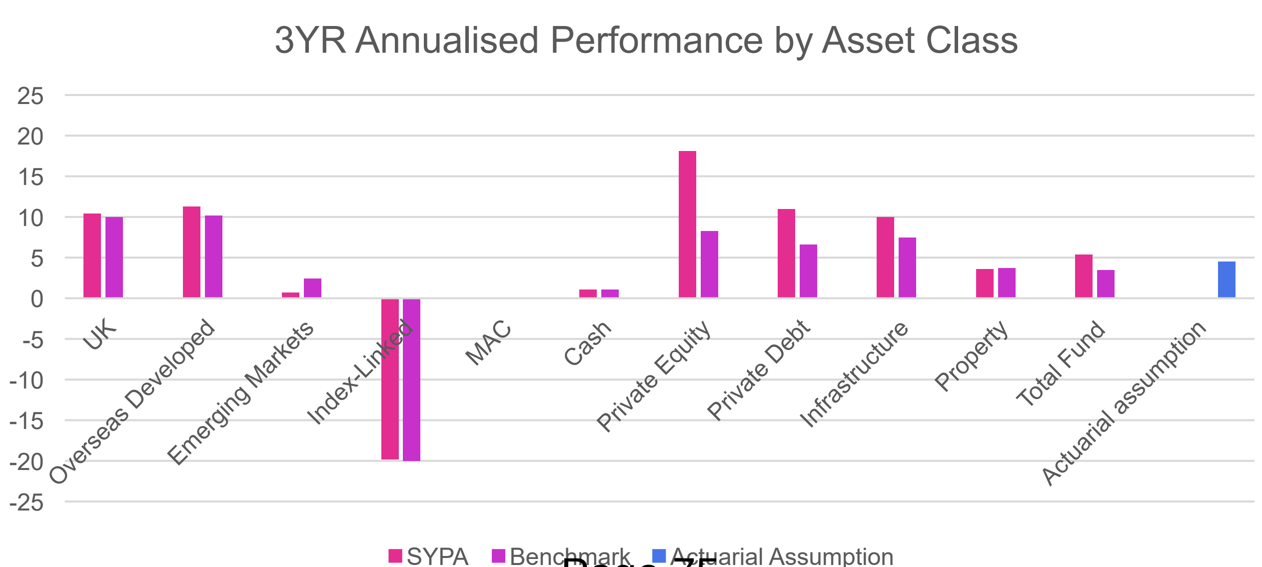
For the quarter to the end of June, the Fund returned 0.2% against the expected benchmark return of 0.1%. Asset allocation decisions taken together had no impact with stock selection having a slightly positive impact overall.

The breakdown of the stock selection is as follows:-

Overseas Developed market equities	**0.3%**
MAC fund	**0.2%**
Other bonds	**0.1%**
Infrastructure funds	**-0.1%**
Renewables	**-0.1%**
Private Equity funds	**-0.3%**
Property	**0.1%**

Performance-Medium term





Performance – Border to Coast Funds

The UK equity portfolio showed marginal outperformance of its benchmark this quarter and is now achieving its target return since inception. The portfolio benefited by its underweight position to telecommunications and by its overweight position to industrials in particular to Melrose and Ferguson

The Overseas Developed Market portfolio outperformed strongly returning 3.4% against the expected benchmark of 2.1%. Outperformance was delivered across all geographic segments but the key driver of absolute performance was the portfolio's US equity exposure with companies with exposure to specific market themes such as AI performing exceptionally well. The portfolio is ahead of its target since inception.

The Emerging Market portfolio outperformed the benchmark this quarter by 0.27%, with both external Chinese managers performing in line with their target index and the internal manager again outperforming. The portfolio is ahead of benchmark for the year but is still behind the benchmark since inception.

The index-linked portfolio generated a total return of -9.92% during the quarter, compared to the benchmark return of -10.19%. The outperformance was driven by a tightening in credit spreads on the corporate holdings and the underweight duration stance as yields rose. The portfolio has met its target since inception.

The Sterling Investment Grade Credit fund generated a return of -2.83% but this was ahead of the benchmark return of -3.39%. There was positive relative contributions from all three managers. From inception all the managers have achieved outperformance of their target.

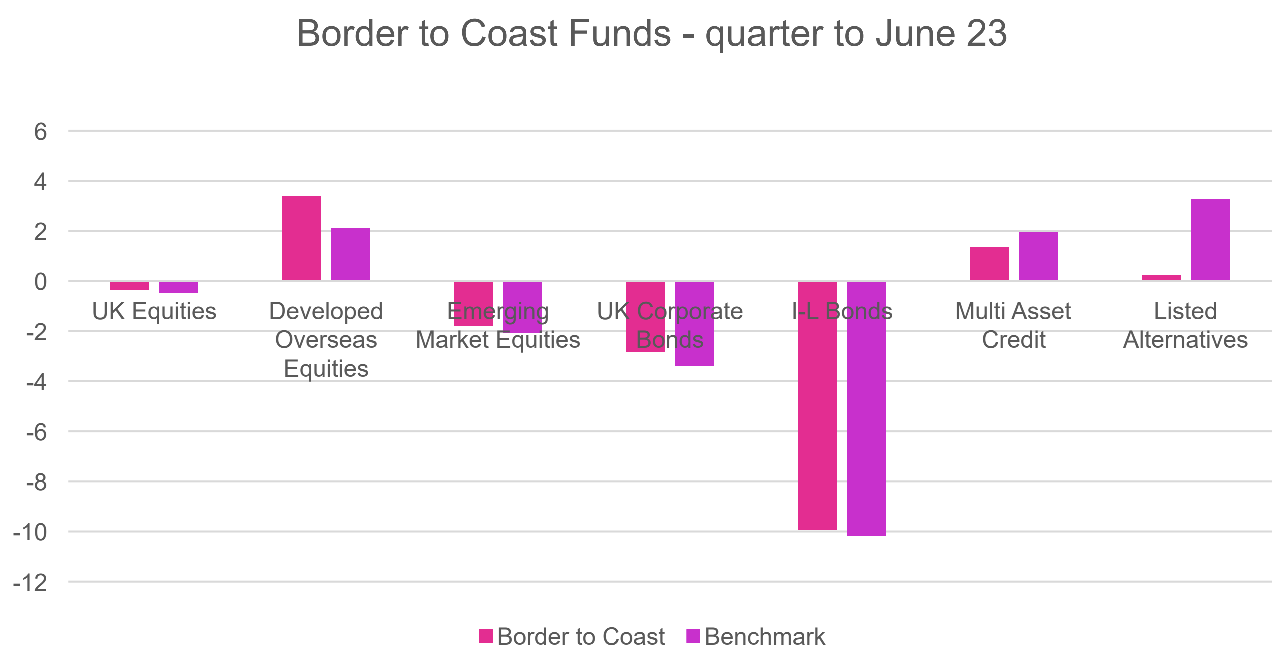
The Multi-Asset Credit fund has an absolute return benchmark and this quarter although it returned a positive return of 1.4% it was still behind its cash benchmark. The only area of outperformance was the Wellington high yield portfolio. The fund is still behind target from inception with only the internal team and Wellington outperforming their benchmark.

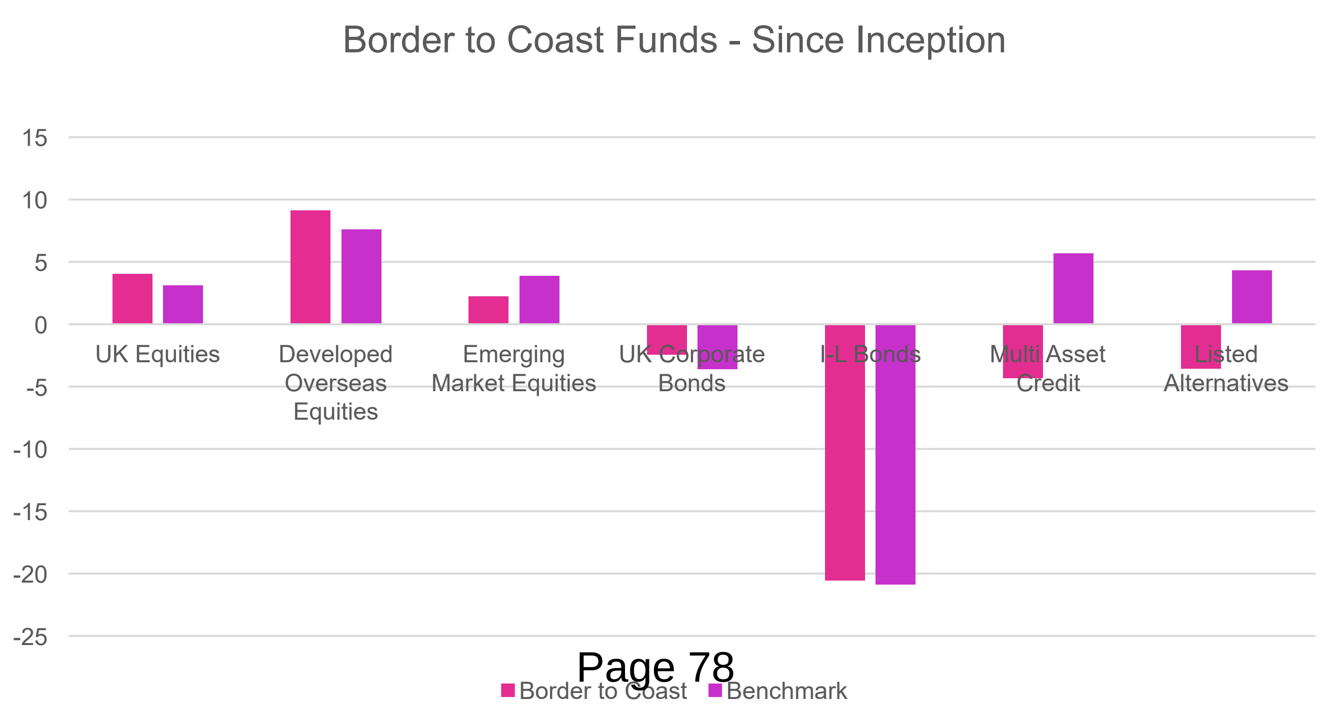
Performance – Border to Coast Funds

The Listed Alternatives fund showed underperformance for the quarter. The portfolio has a diversified portfolio which includes listed assets in infrastructure, specialist real estate, private equity and alternative credit. The Fund returned -0.22% over the quarter, taking returns since inception to -3.57%. Listed Alternative assets have lagged global equity markets over the period, with the MSCI ACWI Index returning 3.3% in the last quarter and 4.29% since the launch of the Fund. The Fund's sensitivity to interest rates was the primary driver of underperformance, with a historically aggressive monetary tightening cycle proving challenging for many long-duration assets including real estate and long-dated bonds

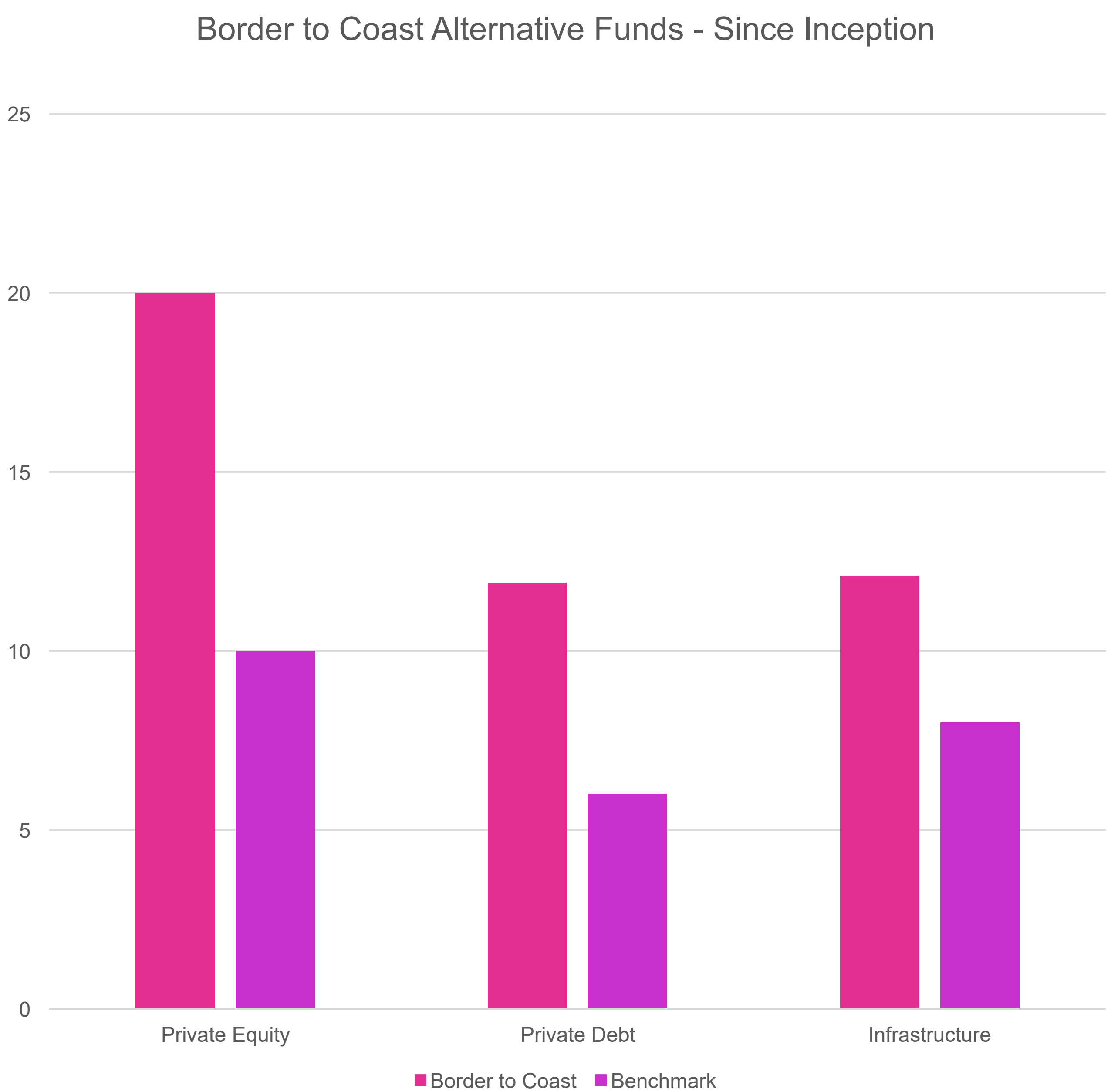
The charts below show quarterly returns but also the longer term position of each of the Border to Coast funds that we hold.

Performance-Border to Coast Funds





Performance-Border to Coast Alternative Portfolios



Funding Level

The funding level as at 30 June 2023 is estimated to be 156.1%

The breakdown is as follows:

Fund's Assets at 30 June	**£10,302.2**
Funds estimated Liabilities at 30 June	**£6,600**

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

Central bank's fastest tightening in 40 years and the faltering recovery in China is leading to a volatile outlook for the global economy. We remain optimistic for the outlook for equities over the long term but in the near term challenges remain. The persistence of inflationary expectations across developed markets is giving central banks little room to manoeuvre if they wish to avoid a recession but stay true to their 2% inflation target. With this background we expect rates to remain higher for longer.

UK Equities

The UK still has reasons for investors to be nervous about the outlook. Headline inflation in the UK is falling more slowly than elsewhere but core inflation is not. The housing market is vulnerable given higher rates, the cost-of-living crisis is still hurting, wage inflation is impacting margins and there are still issues with post-Brexit trading arrangements. The Bank of England has responded by raising rates further and is willing to tolerate weak activity outcomes if that is what is needed to control inflation. Markets are now expecting a rate peak of circa 6% and thus the short term outlook is still uncertain and recession risk is greater in the UK than elsewhere. However, the UK stock market is only loosely tied to the health of the UK economy and in terms of valuations the FTSE 100 is currently trading on less than 11 times expected earnings which is a huge discount to the US market and is also cheaper than shares in any other developed market. Would like to have a fairly neutral weighting.

Overseas equities

We expect market conditions to remain volatile. In the current environment we would prefer low valuations so that there is a margin of safety for equities. This can be found across European and Japanese equities but the US markets do not look as attractive. Opportunities can be found in specific companies but the broader US market is trading above its historic ten year average valuation. Will look to continue rebalancing total overseas weighting towards neutral.

Outlook

Bonds

As we are nearing the top of the interest rate tightening cycle, bonds are beginning to look more attractive. We have benefited from being underweight bonds as rates have been increasing and have taken the opportunity to rebalance our bond weighting. We are currently weighted towards higher risk bonds but will use market opportunities to rebalance across the different bond categories

Real Estate

The portfolio remains heavily weighted towards industrials and very underweight in offices, with mild underweight positions in retail and alternatives.

The strongest rental and capital growth over the next five years is expected to be seen in the residential and industrial sectors and in selected alternative markets. The recommendation is to maintain the overweight to industrials but to increase the exposure to selected alternatives and to deploy capital to build a position in the residential sector.

The focus will still be on good quality assets with strong ESG credentials.

Will look to selectively increase our weighting.

Alternatives

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, in particular to renewable energy funds that have a particularly high level of linkage to inflation and have secure income characteristics. We are also adding further to climate opportunity funds.

Outlook

Cash

We received the pre-payment of contributions in April but the deployment to the alternative sectors has reduced this to a level that further cash requirements would necessitate switching among the asset classes,

SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 1 2023/24

August 2023

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Highlights and Recommendations

Highlights over the quarter to the end of June include:

- The casting of over 6,400 votes at over 400 company meetings.
- A continued high level of engagement activity as the quarter covered peak voting and AGM season.
- High ESG ratings have been maintained for those portfolios where they are available.
- Continued focus on both voting and engagement on moving companies to providing clearer plans for the transition to Net Zero.
- A significant level of stakeholder engagement around various issues but particularly around biodiversity human rights issues and this update highlights a range of engagement activities associated with both issues.
- Continued focus on both voting and engagement on moving companies to providing clearer plans for the transition to Net Zero and their business strategies to achieve these plans.
- The overall ESG performance of the listed asset portfolios has continued to be strong.
- Overall financed emissions of the Border to Coast equity portfolio has continued to fall driven by the Overseas Developed Market Equity Fund and Emerging Market Equity Fund.

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

Background

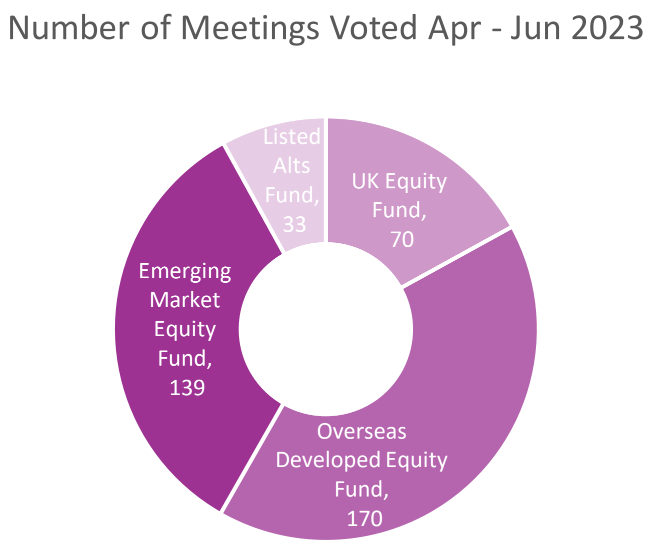
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy which is available on the website here.

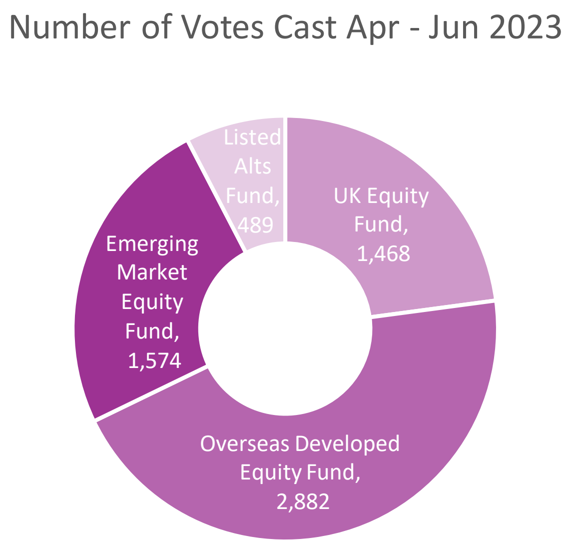
Our approach is largely delivered in collaboration with the other 10 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- 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 quarter on quarter increase in both the number of meetings and votes cast as we moved into peak voting season, with the number of votes cast being close to 6x higher than the previous quarter. Detailed reports setting out each vote are available on the Border to Coast website here. The charts below show a breakdown of the meetings and votes cast by Border to Coast on behalf of SYPA investments.





Robeco highlighted the below in the their Q2 2023 voting report how a growing number of civil society organisations have found their way into companies' annual general meetings to voice their concerns and the impact this may have.

Is this the end of the AGM as we know it?

The AGM season generally creates an opportunity for shareholders to engage investee companies on a range of governance topics. As most companies want to prevent the unwanted surprise of failed resolutions, they engage with larger shareholders or representative organizations well before the meeting to make sure that any contentious issues are laid out in advance. Since most large institutional shareholders vote their shares via proxy (at a distance), the actual meeting doesn't tend to see much debate, and instead is more of a 'rubber-stamping' formality. Institutional investors may still join a meeting to make a public statement, but that seems to be the exception rather than the rule.

However, AGMs at many larger listed companies are getting livelier, particularly due to the participation of shareholders that are not part of that pre-AGM engagement. It is not uncommon for stakeholders of companies including employees, local communities and sustainability focused NGOs to join shareholder meetings and raise concerns. This is especially true at larger international companies entangled in complex societal issues, such as their extraction or use of fossil fuels.

At the AGMs of oil and gas companies, these groups usually ask a higher number of questions than institutional or retail shareholders. During periods of takeovers or restructurings, employees and labor unions also find their way to the AGM to make their voices heard. If nonshareholder stakeholders don't have another channel to effectively to raise their concerns, the AGM can become an annual meeting of stakeholders rather than shareholders.

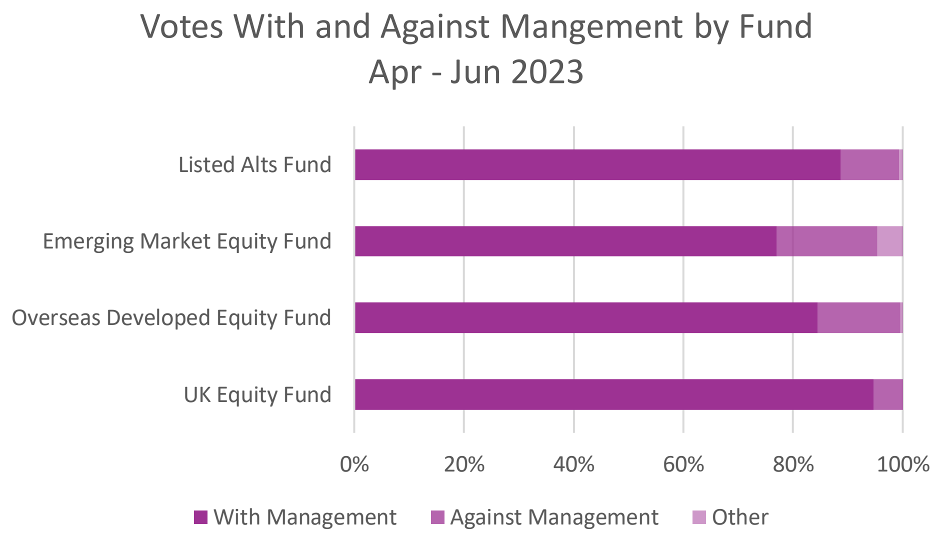
We saw this happen a lot during the current AGM season. We attended the AGM of Ahold Delhaize in Amsterdam and asked for more substance on tax reporting, a more complete set of sustainability related KPIs for the Dutch retailer's remuneration policy, and clarification around the nomination process for the board.

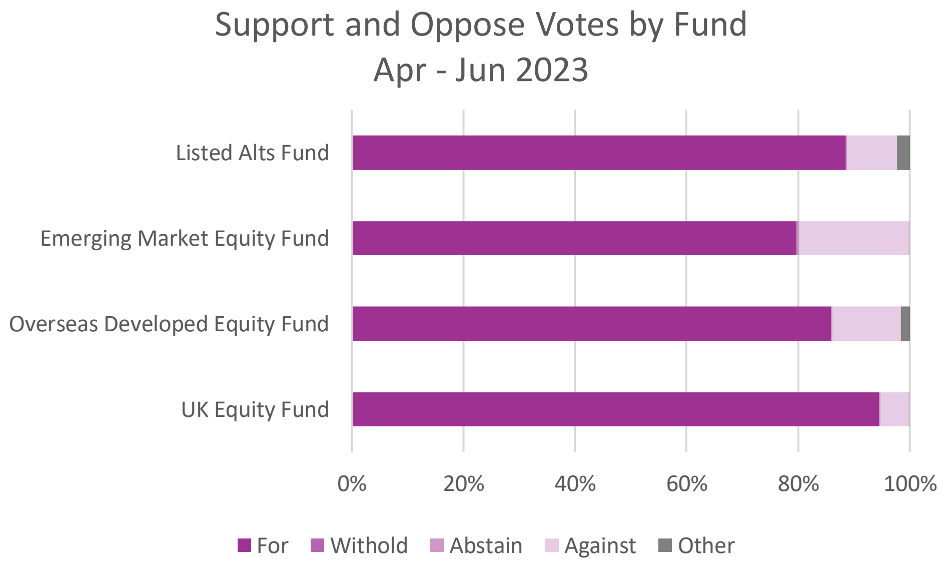
At Unilever's AGM, we asked about the priorities of the company after the upcoming change in CEO, and whether we can expect reasonable external assurance around the key sustainability metrics in its remuneration policy. We also asked about the company's ambitions to limit its biodiversity impact to neutral or even positive, and what measurement systems the company has for this.

The events of the 2023 season might lead to a change in the participation of both company managements and institutional shareholders. Managements might increasingly decide to hold virtual-only AGMs, which we already see at many different US tech companies. We are not in favor of virtual-only AGMs as it provides managements with the opportunity to prioritize questions they are comfortable with, and to limit the opportunity for shareholders to raise concerns.

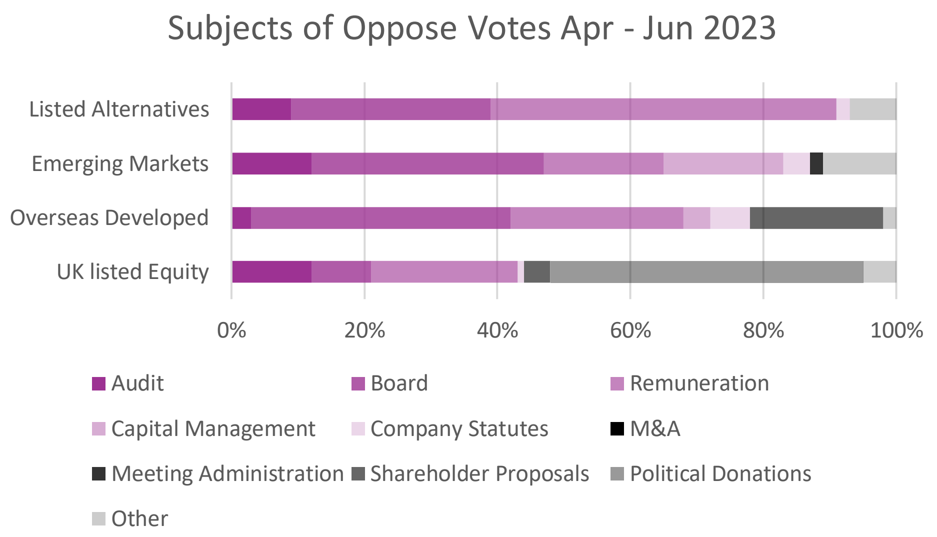
What changes are necessary is difficult to say, but pre-AGM engagements (or other forms of effective communication) with a larger set of stakeholders than just institutional investors seems a good way forward. There is also a role for the board as the conductor of the meeting beyond just opening the room for questions and sitting through until all questions are answered.
Robeco Voting Report July 2023

The breakdown of support and oppose votes along with those votes for or against management is shown in the charts below.





The above graph shows a similar breakdown of votes cast against resolutions compared to last quarter, with the proportion of votes against the line taken by company management also broadly in line with last quarter. 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.



The above graph indicates that votes against are more evenly distributed across topics in all funds than has been the case in previous quarters. The three largest areas where we have opposed management relate to Board composition, remuneration, and in the case of the UK funds, political donations. It is worth reviewing 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.
- 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.
- In the case of votes against political donations in the UK, this reflects the fact that in the UK donations must be put to a shareholder vote and the voting guidelines oppose any donations of this kind.

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 on a case-by-case basis covering both the company's and proponent's 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.

Shell

Shell Plc - Shell's 2023 AGM agenda included a series of routine items as well as a proposal concerning the approval of the company's energy transition progress and a shareholder proposal concerning scope 3 emissions reduction targets. The company's climate strategy was assessed by Border to Coast using their propietary Say-on-Climate framework. Following assessment, Shell's strategy did not pass the framework and as a result we voted Against the proposal which was opposed by c.20% of votes. An additional proposal was filed by shareholder group Follow This, which requested the company align its existing 2030 Scope 3 emissions reduction aims with thos of the Paris Climate Agreement. We supported this proposal along with c20% of votes.

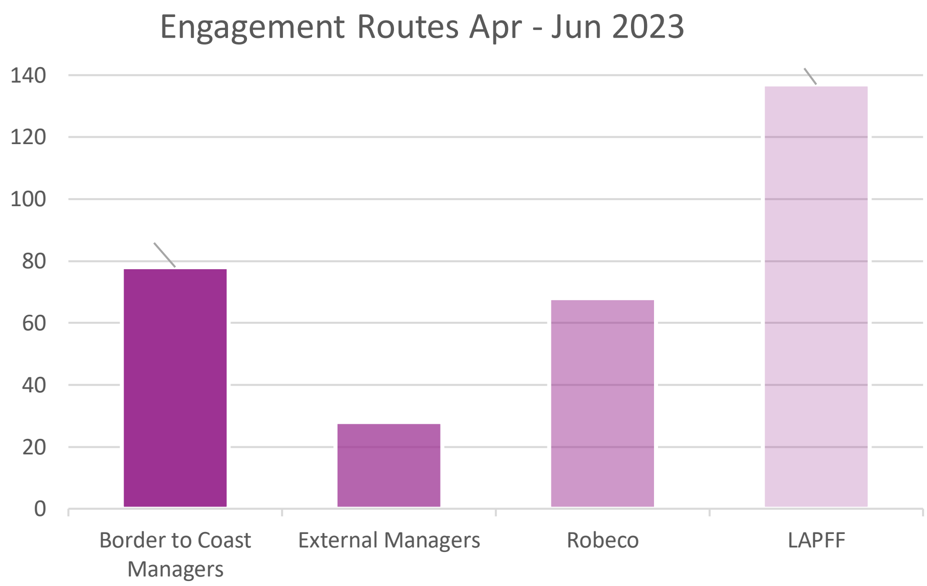
Alphabet

Alphabet Inc - Alphabet offers products and platforms globally through Google Services, Google Cloud and other segments. The Annual General Meeting (AGM) featured 13 shareholder proposals focussing on a wide range of Environmental, Social and Governance (ESG) issues. As with previous years none of these resolutions passed due to the company's multi-class share structure which allows insiders to hold the majority of voting power. This is not in the interest ofs of shareholders and is a deviation from best governance practice which, together with the fact that the composition of the Board did not reach the minimum requirement 30% gender diversity, informed our vote Against the election of the Chair of the Board, who also chairs the Governance and Nomination Committees.

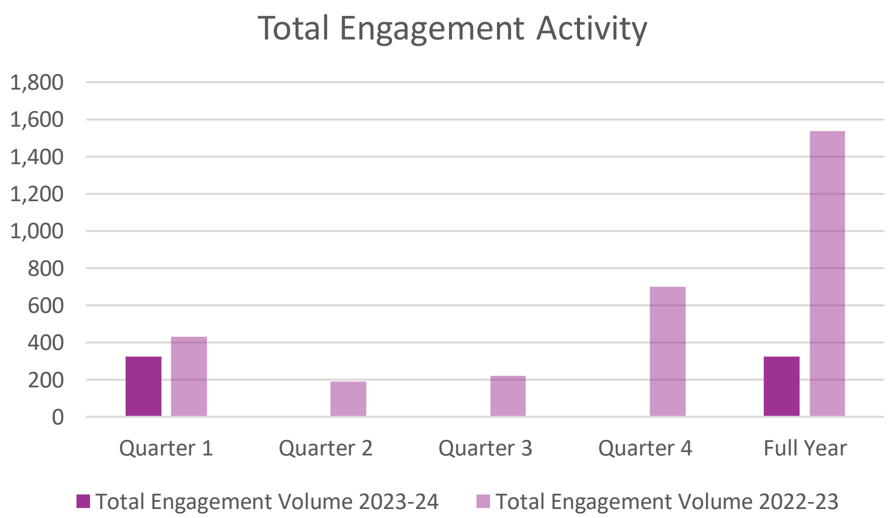
Hon Hal Precision Industry - Hon Hal are a Taiwanese company that provide technology solutions to firms globally. The Annual General Meeting (AGM) took place amid scruitiny over the company's operations and management of environmental impact. It was identified that there were concerns around labour practices in the supply chain and the lack of evidence of adequate human rights due diligence processes. We expect all companies to have in place a robust human rights strategy in line with the UN Guiding Principles on Business and Human Rights. However, our assessment determined that the company does not satisfy these criteria. As a result we voted against the company's 2022 Business Report and Financial Statements proposal.

Engagement Activity

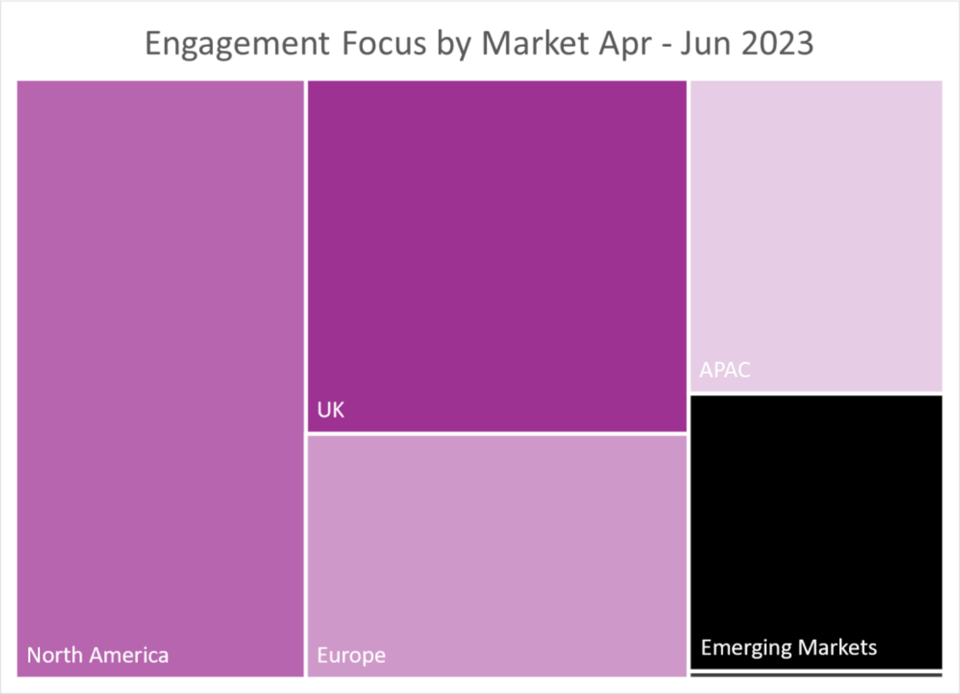
Engagement is the process by which the Authority working together with other like-minded investors seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority such as the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



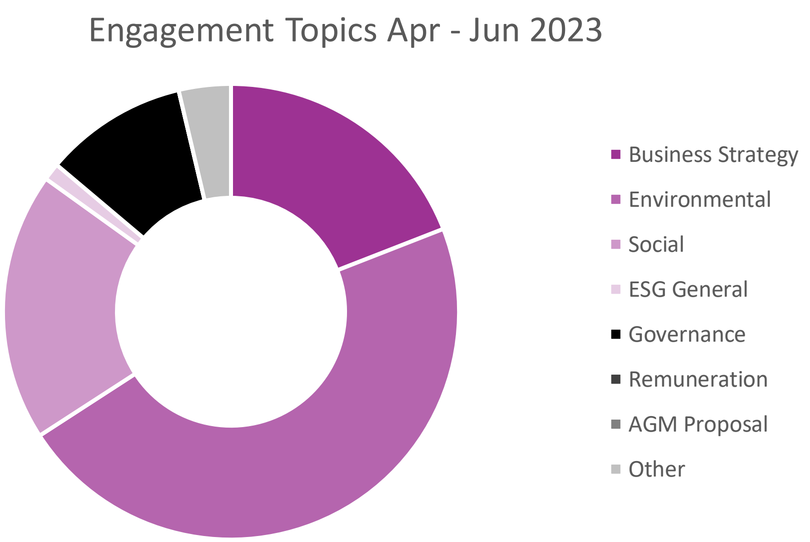
The graph below shows the level of engagement activity in the quarter has reduced compared to the same quarter last year, as well as the previous quarter (Q4 2022-23). Engagement dropped quarter-on-quarter with the passing of voting season build up and fell compared to the same quarter last year following a more targeted approach in LAPFF engagement.



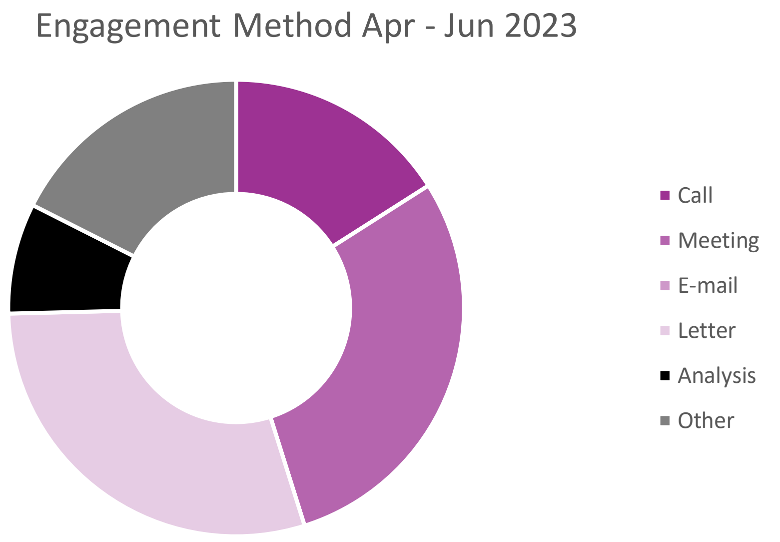
The chart below shows a breakdown of the market focus in engagement over the last quarter. The focus of engagement reflects the geographic distribution of holdings with the improved reach achieved by Border to Coast shown by the increase in engagement with North American companies. As the build up to peak voting and AGM season has passed in the UK, LAPFF's focus has increased on North American and Emerging Market geographies.



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 business strategy, governance and social issues received an increasing degree of focus.



The method by which companies are engaged is important. Letters and emails 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. Positively, the proportion of communication with companies via letter declined compared to last quarter with c45% of interactions taking the form of a call or meeting.



More details of the engagement activities undertaken by Border to Coast and Robeco in the quarter is available [here.](#) Significant aspects of this work by Robeco in the quarter include:

- Robeco continued their engagement on biodiversity during the quarter and closed out the first cases opened back in 2020.

    - The focus, so far, has been on eliminating one of the key biodiversity loss divers – deforestation across agricultural supply chains and restoring destroyed ecosystems. For the past three years Robeco have focussed on engaging companies operating in the material and consumer stables sectors who source some of the highest-risk soft commodities, namely cocoa pulp and paper, natural rubber, beef and soy.
    - In line with the Global Biodiversity Framework agreed at COP 15, the expectation on companies is that they have set credible zero deforestation and conversion commitments, conduct robust biodiversity impact assessments and address the social challenges in their supply chains. Robeco have encouraged companies to set time-bound commitments to end deforestation and native vegetation conversion in their supply chains no later than 2025.
    - Key successes include the accelerating and setting of 'no deforestation' targets to as early as 2025 along with the establishment of first socially and environmentally inclusive agricultural development models. Following engagement, companies have strengthened their monitoring systems to map how their suppliers are exposed to deforestation risk. However, challenges remain around the scope of some of these policies, along with the depth and credibility of monitoring efforts.
    - One way for companies to manage their negative impact on land use is through ecosystem conservation efforts. In their engagement, Robeco asked companies to implement adequate land restoration efforts and improve their disclosures on sourcing locations in high carbon stock areas.

    - Most companies have restoration and conservation projects in place. However, these tended to be on an ad-hoc basis. As a result of engagement, Robeco have seen companies issue their first restoration or conservation-linked green bonds or make the initial payments for ecosystem service pilot schemes.
    - Through engagement, it was noted that few companies are trying to calculate their impact on nature with tools such as the Integrated Biodiversity Assessment tool (IBAT). It is hoped that the integration of the new Taskforce for Nature-related Financial Disclosures (TNFD) framework will help in improving how companies carry out their biodiversity impact assessment.
    - Mondelez International who are one of the world's largest US snack companies, with many products based on chocolate and therefore a large importer of cocoa, was engaged by Robeco. In particular, dialogue has been on the company integrating its forest restoration efforts within its operating model.
    - As a result, in 2023, under the company's new sustainable cocoa sourcing models, Mondelez for the first time included clear off- and on-farm restoration targets. While affected areas continue to be insignificant compared to the company's sourcing footprint, we see this as a first step to a more ambitious biodiversity approach.

- Robeco's three-year engagement programme with companies operating in conflict-affected and high-risk areas (CAHRA), where human rights issues are a key risk, reached its midway point. Under the UN Guiding Principles on Business and Human Rights (UNGPs, 'soft law') corporates – including investors – have a shared responsibility to respect human rights. The engagement necessitates that companies conduct enhanced due diligence to understand and mitigate the potential harm their operations may cause to human rights.

    - The progress of the engagement has varied between companies. Overall companies have been open to Robeco's engagement, with just one company failing to respond to multiple contact attempts.
    - Positive progress has been made with two companies in developing management processes allowing them to exercise effective human rights due diligence in line with the UNGPs. Once company hired two dedicated human rights experts to further implement these commitments.
    - Robeco's engagement also revealed regional trends with less progress observed in Myanmar and Xinjiang compared to Palestinian territories. Going forward, Robeco's engagement will focus on the human rights implications of withdrawing versus staying, as this has to be carefully weighed to ensure a responsible exit.

- Good corporate governance is another theme that Robeco identified as a focus for investors during the recent annual general meeting (AGM) season. During the quarter, Robeco commented that within the focus on environmental, social and governance factors in recent years the 'E' and 'S' have arguably drawn the most attention. This has been due to a focus on combating climate change however there is now awareness that effective governance is imperative to long term success and that poor corporate governance can have far-reaching consequences for the economy as a whole.

    - The issues that poor corporate governance can enable was highlighted earlier this year with the shock collapse of three US banks; Silicon Valley Bank (SVB), Signature Bank and First Republic. The Federal Reserve's report examining the SVB collapse concluded that the bank failed because of a "textbook case of mismanagement", which points to a failure in governance.

- While the report into the Credit Suisse collapse is yet to be released, a 2021 report into the bank's losses on highly risky financial swaps revealed a lack of risk oversight along with a wide range of corporate governance failures.
- Looking back, many of the enhancements in corporate governance regulations have come about as a result of corporate failures and it can be expected that the recent banking crisis will again trigger regulatory reform.
- In reality there are a myriad of factors that contribute to good corporate governance which includes ensuring that shareholders have the proper tools available to hold the board and management accountable. As shareholders, we are co-owners of many companies with votes at shareholder meetings, with the aim of positively influencing a company's corporate governance. This ensures we can hold companies accountable for poor corporate governance across all three dimensions of ESG.

The last quarter saw peak voting season begin and end in most markets. During this period Border to Coast implemented their strengthened voting policy on climate change by voting against a significant number of board Chairs across our oil and gas, mining and materials holdings. Border to Coast also publicly pre-declared their decisions to vote against the Chairs of Shell and BP and to vote against Glencore's climate report to signal intent to other investors.

Border to Coast also supported a range of shareholder proposals during the quarter. The number of shareholder proposals filed in markets such as the US and Japan reached new highs and individual companies have seen record numbers of proposals on their agendas (18 in Amazon's case). A significant portion of these continue to be climate focussed and despite opposition from some institutions following the U.S. anti-ESG backlash, the proposals we supported received significant backing. The anti ESG movement has been evident in the increasing number of 'anti-social' shareholder proposals, which often aim to block genuine proposals and confuse investors. These have, however, consistently received low levels of support.

Border to Coast joined the 'Financing a Just Transition Alliance' coordinated by the London School of Economics Grantham Institute and joined Royal London Asset Management (RLAM) to collaboratively engage UK banks on a just transition.

During the quarter Border to cost also joined the Institutional Investors Group on Climate Change (IIGCC) Net Zero Engagement Initiative and will be co-leading engagement with EasyJet. The IIGCC also published new net zero standards for oil and gas companies and for banks and are intended to support constructive engagement with companies to aid ongoing implementation of climate commitments.

More details of the activity undertaken by LAPFF in the quarter is available here. The key issues worked on during the quarter include:

- LAPFF attended six AGMs this quarter and drafted a record number of voting alerts including over 50 dedicated climate related shareholder resolutions with half receiving backing from 20 percent or more shareholders. LAPFF will follow up with companies where there were significant votes in favour of shareholder resolutions to understand how the board intends to respond.
- LAPFF has continued to engage with a number of mining companies including Rio Tinto, Anglo American, Glencore and Value with the aim of highlighting the significant work still required on both human rights and decarbonisation.
- Further engagement with miner Anglo American was made following a LAPFF report in relation to concerns voiced by local communities surrounding the Anglo American owned

Minas Rio dam in Brazil. This report was written on the back of a LAPFF visit to Brazil to visit communities devastated by the collapse of two dams owned by other companies. LAPFF sought the view of Anglo American on the report and as a result Anglo American engaged significantly with LAPFF. This engagement resulted in a commitment at the AGM from the Anglo American Chair stating that the board would commit to visiting the various project sites to engage with local communities affected by Anglo American projects.

- After seeking a meeting with the new Shell CEO, LAPFF was offered a meeting with the Chair, Sir Andrew Mackenzie, to discuss the company's climate transition.
- Further engagement with oil and gas majors BP and Shell was made at the company AGM's with LAPFF providing support for the Follow This resolutions which received 15 percent and 20 percent support respectively.
- LAPFF issued voting alerts largely supporting ESG shareholder resolutions filed at technology companies. LAPFF continues to have concerns about corporate governance and social practices at large US technology companies and will continue to seek ways to engage these companies meaningfully in relation to these ESG issues.
- LAPFF has continued to support the 30% Club Investor Group, a collaboration of investors pushing for women to represent at least 30% of boardroom and senior management positions at FTSE-listed companies. The Group has extended its remit globally with LAPFF set to lead on engagements through the Group's Global subgroup.
- Work continued on collaborative engagement initiatives including Climate Action 100+ where LAPFF is the lead engager for a number of companies including National Grid and Toyota where the focus of engagement is on future energy transition and future EV production plan respectively.
- There was a focus this quarter on engaging companies where supply chain concerns were present, particularly ensuring the human rights of workers are met. Both Next and Adidas were engaged by LAPFF to discuss their positions on continuing manufacturing operations in Myanmar following guidance posted in 2022 by the Ethical Trading Initiative which led to many companies exiting the country having exhausted efforts to leverage positive human rights outcomes. LAPFF requested increased disclosure of child labour concerns and remediation practices and will continue to monitor labour rights issues.

LAPFF has also continued responding to wider developments for example the UN Working Group on Business and Human Rights consultation and will continue to respond to consultation opportunities where it believes it can contribute helpfully.

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
- 50.1% of portfolio ESG leaders v 49.6% in the benchmark.
- 1.2% of portfolio ESG laggards v 2.2% in the banchmark.
- 5.5% of portfolio not covered all of which are investment trusts etc higher than benchmark
- Lowest rated 5 companies 1.2% 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 3 scoring 4 and 4 of 5 engaged through Climate Action 100+

United Kingdom

- Weighted ESG Score 8.0
- 73.9% of portfolio ESG leaders v 72.9% in the benchmark
- 0% of portfolio ESG laggards
- 7.6% of portfolio not covered mainly investment trusts marginally less than benchmark
- Lowest rated 5 companies 5.9% of portfolio but all Average companies
- Emissions below or equal to benchmark on 2 of 3 measures
- Lower 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 5.8
- 24.6% of portfolio ESG leaders v 19.4% in the benchmark
- 10.6% of portfolio ESG laggards v 14.1% in the benchmark
- 5.9% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 4.2% of portfolio.
- Emissions materially below benchmark on all metrics
- Greater weight of fossil fuel holdings than in benchmark.
- 4 of the top 5 emitters engaged with the Transition Pathway with two scoring 3 or 4 and 4 of 5 engaged through Climate Action 100+

Listed Alternatives

- Weighted ESG score 7.2
- 35.5% of portfolio ESG leaders v 43.6% in the benchmark
- 0.5% of portfolio ESG laggards v 2.7% in the benchmark
- 42.6% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 7.8% of portfolio.
- Emissions below benchmark on 2 of 3 measures
- Materially lower weight of fossil fuel holdings than in benchmark.
- 4 of the top 5 emitters engaged with the Transition Pathway with two scoring 4 and 2 of 5 engaged through Climate Action 100+

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.

Overseas Developed Fund

Within the Overseas Developed Fund Jardine Matheson Holdings ('JM'), is a diversified holding company operating in China, Southeast Asia and the UK. JM has interests in property, hotels, strategic investments, dairy, construction, transport services and sales and service of motor vehicles.

MSCI raised several concerns relating to JM in terms of ESG, rating the Company as "CCC". These are primarily linked to historical governance risks associated with board practices, the presence of a controlling shareholder, and cross-shareholding ties. JM began to address the corporate ownership structure / cross-shareholding concerns with a simplified structure through the privatisation of Jardine Strategic Holdings in April 2021. As of July 2023, MSCI have recognised these improvements and significantly increased the Governance Pillar score related to "Ownership & Control".

JM has made several commitments; to invest in renewable energy, to diversify into non-coal mineral mining, and to make no investments in new coal mines and new thermal coal-fired power plants. The Company is also looking at opportunities in clean technology given its exposure to the auto industry and the transition towards electric vehicles. In 2022, JM published its inaugural Sustainability Report formulating a strategy for Net Zero aligned with the TCFD Framework and committed to the Science Based Targets Initiative (SBTi), aligned to a 1.5°C scenario.

UK Listed Equity Fund

The weighted ESG score remained consistent over the quarter and remains above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be 'Leaders'.

The Fund's overall ESG rating fell during the period from AAA to AA. This is due to a change in methodology at MSCI, whereby the weighted ESG score was adjusted based on several factors including momentum of recent ratings changes and exposure to laggards. This adjustment has now been abolished; therefore, Funds with a high proportion of recent upgrades and/or low exposure to laggards no longer see an upward adjustment resulting in the rating being adjusted downward.

Featured Stock: Glencore PLC

Glencore is an international mining and commodity marketing company headquartered in Switzerland. Commodities mined include copper, zinc, coal, cobalt and nickel. The balance is accounted for by the marketing division. The exposure to cobalt, copper and nickel in particular face favourable demand characteristics through the energy transition as product is utilised in batteries and electricity transmission products and infrastructure. The Company is also reasonably well placed on the cost curve enabling good profitability in periods of strong demand and protection against demand weakness. The Company has a particularly strong market share of cobalt production. Glencore has very strong cashflows and a balance sheet from which it can expand the reserve base organically and through acquisition. It has exposure to coal albeit demerger plans are underway, and it has proposed a value creative merger with Teck Resources to scale the metals business and improve the coal division prior to demerger.

Having transformed the management of the business by replacing many executives and changing the business culture Glencore has made significant improvements to its ESG credentials. The MSCI BBB rating notes the material improvements in governance, health and safety and carbon emissions. However, it recognises that given the sizeable workforce there is the potential for labour management issues. Tensions in this area can periodically escalate into industrial action for Glencore, and also for the sector as a whole.

The Company was rated Level 4 by the Transition Pathway Initiative (TPI) in its last assessment in April 2022, which indicates it is making a “Strategic Assessment of the management of its greenhouse gas emissions and of risks and opportunities related to the low-carbon transition”. Since then, the Company has provided additional disclosure and made changes that are likely to improve the Company against the TPI assessment criteria.

Emerging Markets Equity Fund

The ESG weighted score remained flat over the quarter and above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be ‘Leaders’.

Carbon emissions decreased in the quarter due, in part, to exiting the position in Tenaga Nasional, a Malaysian multinational electricity company.

Featured Stock: Gree Electric Appliances

During the quarter Gree Electric Appliances, rated CCC by MSCI, was added to the Fund.

Gree Electric Appliances is a leading manufacturer of air conditioners in China, holding approximately 30% share of the market at the end of 2022. Its other products include water heat pumps, home appliances and industrial products.

Chinese residential real estate has faced significant challenges recently, however with the potential of an economic recovery, demand for home appliances should also increase. This cyclical uplift would benefit the Company given it is trading at depressed valuations.

It is acknowledged that the ESG quality of the Company is suboptimal, which is partially reflected in the lower valuation compared to peers. A key issue relevant to the investment case is capital allocation going forward, particularly with respect to acquisitions and related party transactions. In 2021, the Company acquired a majority stake in electric vehicle battery maker Yinglong motors, in which the Company’s Chair held a stake. There is therefore some minority shareholder apprehension regarding capital allocation or related party transactions. The Company is rolling out an employee share ownership scheme mandating a 50% dividend payout which should see it more aligned with minority shareholders’ interests.

Sterling Investment Grade Credit Fund

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 7.6

41.2% of portfolio ESG leaders compared to 57.7% in the benchmark

0.4% of portfolio ESG laggards compared to 0.9% In the benchmark

22.9% of portfolio not covered compared to 9.4% in the benchmark

Lowest rated issuers represent 2.5% of the portfolio

Emissions below benchmark on all three metrics.

Materially below benchmark weight of companies with fossil fuel reserves.

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

The ESG score was stable over the quarter remaining below the benchmark however The Fund's overall ESG rating fell during the period from AAA to AA. This is due to a change in methodology at MSCI, whereby the weighted ESG score was adjusted based on several factors including momentum of recent ratings changes and exposure to laggards. This adjustment has now been abolished; therefore, Funds with a high proportion of recent upgrades and/or low exposure to laggards no longer see an upward adjustment resulting in the rating being adjusted downward. The benchmark similarly was also revised down to AA from AAA.

The Investment Grade Credit portfolio has as mentioned previously seen a significant improvement in data availability with the overall position remaining below the benchmark on all metrics.

Commercial Property Portfolio

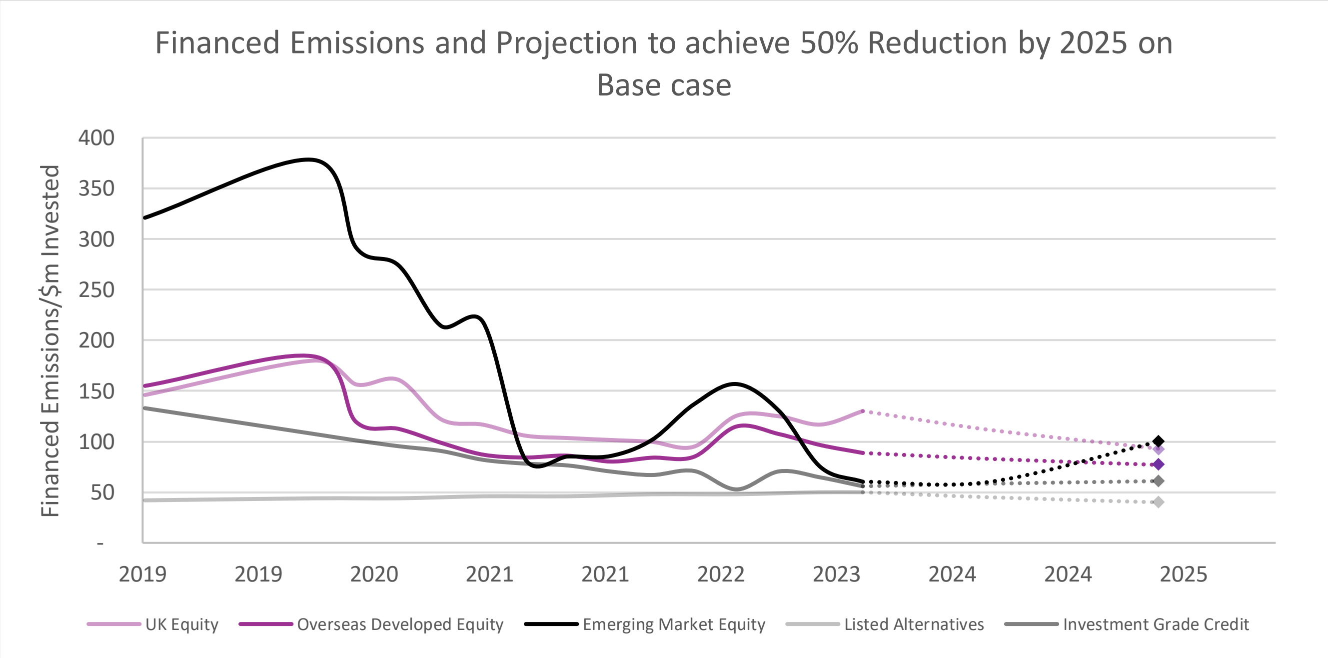
As reported previously, the overall ESG performance of the commercial property portfolio as measured by the GRESB (Global Real Estate Sustainability Benchmark) has improved over the last year with the portfolio now achieving a 3 star score with an increase in the percentage score from 66% to 74%. In comparative terms the portfolio's ranking, over the year, moved up to 22 out of 80 from 54 of 79, reflecting the increased focus on 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 down on the previous year 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 increased year-on-year from 10% to 37%. As noted in previous reports, given the costs of in use certification, this measure is expected to increase as new acquisitions take place. In addition, there may also be some merit in encouraging Border to Coast to get certification of all properties as part of the creation of their UK property 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 now includes emissions data for the Listed Alternatives fund therefore covers five publicly traded funds held with Border to Coast for which carbon emissions data is available.



Only the Emerging Markets Equity Fund and Investment Grade Credit Fund are currently tracking below target in order to meet the overall portfolio carbon emissions interim target of a 50% reduction, by 2025, against the base case. The reductions required are most significant for the UK Equity Fund where financed carbon emissions have increased since Q2 2022. Following an increase in financed emissions in 2022, the Overseas Developed Equity Fund continued on a positive trajectory, with emissions reducing. Due to the weighting of assets in the portfolio, the most significant changes to the overall portfolio emissions comes from the Overseas Equity and UK Equity funds. Both funds, along with the Listed Alternative Fund will need to reduce financed emission if the 2025 interim target is to be met.

Overseas Developed Markets Equity

All carbon metrics saw reductions during the quarter. The reduction in financed emissions came from smaller contributions from RWE, Holcim and ArcelorMittal as their plans for decarbonisation are implemented.

UK Equity

Financed emissions increased slightly during the quarter but remains below that of the benchmark, This overall increase was primarily due to higher emissions from the five largest contributors: Shell, BP, CRH, Rio Tino and Glencore. The continued investment reflects 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.

Emerging Markets Equity
The fund is significantly below the benchmark for carbon emissions and saw a further reduction during the quarter due, in part, to exiting the position in Tenaga Nasional. All three measures of carbon emissions and intensity 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.

Listed Alternatives
The Listed Alternatives portfolio has seen a continued increase in the availability of Carbon Emissions Data. During the quarter, the overall financed emissions of the fund increased during the quarter following investment in Cheniere Energy which has been a significant contributor to emissions.

Investment Grade Credit
As mentioned previously, the Investment Grade Credit portfolio has 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 power European producers Enel, EDF, Engie and Eon. 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.

Coverage

The proportion of companies covered is an important metric when assessing the progress made to Net Zero. Without a high level of coverage, the picture will not be complete or accurate. The table below outlines the level of coverage in the funds held with Border to Coast. Over time the % of the funds covered has increased with further improvements to be made, particularly on the Sterling Investment Grade Credit Fund.

Fund	ESG (%)	Carbon (%)
Overseas Developed Markets Equity	94.5%	94.5%
UK Listed Equity	92.4%	92.8%
Emerging Markets Equity	94.1%	94.4%
Listed Alternatives	57.4%	89.0%
Sterling Investment Grade Credit	77.1%	73.5%

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.

Kansai Electric Power
power with heart

The Kansai Electric Power Company (KEPCO) is one of ten major electricity utility companies in Japan generating and distributing electricity. Its service area is located in the central part of the main island of Japan, Honshu, serving around 20 million inhabitants or 16% of the Japanese population, making it Japan's third largest power supplier.

KEPCO has a higher exposure to Nuclear (operational and near-term restarts) than competitors. It is held as a tactical play on the projected restarts of 2 mothballed reactors this summer, as Japan focuses on Nuclear as part of its short to medium term energy solution. As Utilities are currently less than 1.4% of the Fund's benchmark (FTSE Japan), we may hold them from time to time as investment opportunities present or to position the portfolio more defensively. KEPCO is not seen as a core long-term holding.

KEPCO has a net-zero target of 2050 with an interim target of reducing CO_2 emissions by 50% by 2026 (vs 2014 baseline). Targets are absolute and cover Scope 1-3 emissions, and they are on track with all metrics. MSCI reports strong management practices to address carbon emissions relative to peers, including evidence of investments in carbon capture and storage projects.

Rated as Level 3 ("integrated into Operational Decision Making") by TPI, it is short-term and long-term aligned to below two degrees.

As has been made clear previously the forecast reduction in emissions shown is dependent 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 stakeholder interaction covering the issues of companies operating in the Palestinian territories. Responses were made by the director, in line with policy, addressing these issues.

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.

Local Authority Pension Fund Forum

LAPFF held a business meeting during the quarter which included the approval of the workplan for the coming year and agreed the budget and subscription levels, allowing for an inflationary increase.

The Forum is operating in line with its budget and membership now stands at 87 Funds and 7 pools after welcoming its newest member, the ACCESS pool.

With a membership that in aggregate holds over £350 billion in assets under management, LAPFF's financial clout is already equivalent to that of one of the top ten largest global pension funds. However, any additional clout can only help.

Climate Action 100+

During the quarter, Climate Action 100+, the world's largest investor engagement initiative on climate change, produced a consultation draft of the Net Zero Standard for Diversified Mining. The new Standard will help investors assess the progress of diversified mining companies as they move towards net zero.

The Standard will provide a transparent, systematic, and evidence-backed tool, so Climate Action 100+ signatories have metrics that are specific to this important, but complex, sector. The Standard is designed to complement the sector-neutral Climate Action 100+ Company Benchmark. The reflects the outcome of extensive consultation with investors and mining companies themselves.

IIGCC
The Institutional Investors Group on Climate Change

At the start of the quarter, the Institutional Investors Group on Climate Change (IIGCC) released further support investors and to help companies understand and respond to this request, we have also published new guidance as part of its Net Zero Initiative, "Investor expectations of corporate transition plans: From A to Zero." This publicly available resource offers information investors should be asking for when assessing transition plans, the rationale for those requests, and how companies can meet them.

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.

Border to Coast Responsible Investment Policy Review 2023

Border to Coast requested responses as part of their annual RI policy review. We highlighted our expectations of a tighter revenue reduction threshold relating to pure coal and tar sands as well as around a zero-tolerance exclusion on cluster munitions. We also requested that Border to Coast greater transparency around how the Human Rights Policy will be applied, for example defining what type of breach would render a company 'uninvestable'.

FCA Primary Markets Effectiveness Review

The FCA is consulting on reforms to the UK listing regime. We support the objective to maintain the UK as an attractive place to list as part of the broader discussion around the functioning of UK capital markets. Border to Coast responded to the consultation and supported the Investment Association's response, whilst highlighting our key concerns on the potential rolling back of investor protections. This includes changes related to significant and related party transactions votes and changes to dual class share structures.

IIGCC Standards and Guidance

During the quarter, the IIGCC published new net zero standards for oil and gas companies and for banks. The standards, developed with input from a range of industry practitioners, are intended to support constructive engagement with companies to aid ongoing implementation of climate commitments. The Group also made further enhancements to the Net Zero Investment Framework, publishing guidance for bondholder climate stewardship and net zero in private equity.

ISSB Standards

In June, the International Sustainability Standards Board (ISSB) issued its inaugural standards. The standards aim to create a common language for disclosing the effect of climate-related risks and opportunities on a company's future prospects. Following launch, the ISSB will work with jurisdictions and companies to support adoption. The first step involves the creation of a Transition Implementation Group to support companies in applying the standards and launching capacity-building initiatives for implementation.

ECB Climate Disclosures Review

The European Central Bank (ECB) released its third review on banks' climate-related risk disclosures practices and trends during May. The Bank acknowledged progress but found financial institutions remain below expectations. They urged banks to improve disclosures and provide more specific information. This review strengthens the case for engaging banks in our Low Carbon Transition theme. Our dialogue on financing and disclosures with banks continues.

Climate Action 100+ Launches Phase 2

Climate Action 100+, the largest investor-led climate change initiative, has entered its next phase to drive increased corporate climate action over the next decade. The new phase emphasises the execution of corporate climate transition plans to foster lasting shareholder value.

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Subject	Discretions Policy Statement Report	Status	For Publication
Report to	Pensions Authority	Date	07/09/2023
Report of	Interim Assistant Director - Pensions		
Equality Impact Assessment	Not Required	Attached	Na
Contact Officer	Nigel Keogh Interim Assistant Director - Pensions	Phone	01226 666463
E Mail	NKeogh@sypa.org.uk		

1 Purpose of the Report

1.1 To present to members the latest version of the Discretions Policy Statement.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the current version of the Policy and raise any questions around the content.**

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3 Link to Corporate Objectives

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

Effective and Transparent Governance

To uphold effective governance always showing prudence and propriety.

4 Implications for the Corporate Risk Register

4.1 The contents of this report set out the actions being taken in several areas that will contribute to addressing various risks in relation to pensions administration and governance.

5 Background and Options

5.1 All LGPS Administering Authorities are required to produce a statement setting out how they will exercise the discretion available to them under various elements of the LGPS Regulations. SYPA has not previously had a consolidated statement of how these discretions will be exercised and therefore an exercise has been undertaken to bring the previous disparate information into one place, which following approval will be published on the Authority's website. At this stage no changes in the policies in relation to the exercise of discretions are proposed, this exercise is simply a consolidation and rationalisation of current practice, including making clear who is responsible for exercising discretion and how such decisions should be recorded.

5.2 The Discretions Policy Statement is based on the LGPS recommended format and sets out the framework within which the Authority will make decisions over which the Pensions Regulations give it discretion.

5.3 The statement, attached for information at Appendix A, will be reviewed if there is a change in regulations and as a minimum every three years.

6 Implications

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

Financial	None
Human Resources	None
ICT	None
Legal	None
Procurement	None

Nigel Keogh

Interim Assistant Director - Pensions

Background Papers	
Document	**Place of Inspection**
None	-

August 2023

Discretions Policy Statement

South Yorkshire Pensions Authority

Discretions Policy Statement as reviewed June 2023

The document below contains the discretionary policies of South Yorkshire Pensions Authority, in respect of the Local Government Pension Scheme Regulations:

These discretions are specifically exercised under the legislation contained within the following legislation:

- the Local Government Pension Scheme Regulations 2013 [prefix R]

- the Local Government Pension Scheme (Transitional Provisions,

Savings and Amendment) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]

- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]

- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]

- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

- the Local Government Pension Scheme Regulations 1995 (as amended) [prefix S]

- the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended) [prefix C]

Section 1 • LGPS Regulations 2013 [SI 2013/2356] [R] • LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 [SI 2014/525] [TP] • LGPS (Administration) Regulations 2008 [SI 2008/239] [A] • LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended) [SI 2007/1166] [B] • LGPS (Transitional Provisions) Regulations 2008 [SI 2008/238] [T] • LGPS Regulations 1997 (as amended) [SI 1997/1612] [L]			**Discretionary policies from 1 April 2014 in relation to post 31 March 2014 active members (excluding councillor members) and post 31 March 2014 leavers (excluding councillor members)**	
Discretion	**Regulation**	**Statement**	**Discretion/Delegated Discretion (Named Officer)**	**How applied (e.g. Officer Decision)**
Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission.	R4(2)(b)	An application for an admission agreement from a Care Trust will be accepted on the basis that a guarantee will exist	Assistant Director Pensions	Officer Decision
Whether to agree to an admission agreement with a body applying to be an admission body.	R3(1A), R3(5) & RSch 2, Part 3, para 1	Subject to compliance with the Scheme Regulations and acceptable risk assessment the Administering Authority is willing to enter into an admission agreement.	Assistant Director Pensions	Officer Decision
Whether to agree that an admission agreement may take effect on a date before the date on which it is executed.	RSch2, Part 3, para 14	The Administering Authority is willing to exercise this discretion, but all such requests will be considered on a case-by-case basis.	Service Manager S&E	Officer Decision

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Whether to terminate an admission agreement in the event of: - insolvency, winding up or liquidation of the body. - breach by that body of its obligations under the admission agreement. - failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so.	RSch 2, Part 3, para 9(d)	The Administering Authority will consider all such instances on a case-by-case basis in line with the Funding Strategy Statement.	Assistant Director Pensions	Officer Decision
Define what is meant by “employed in connection with”.	RSch 2, Part 3, para 12(a)	“employed in connection with” shall mean that an Eligible Employee is employed by the Admission Body on the basis that in any scheme year an Eligible Employee spends not less than seventy five per cent (75%) of their time whilst working on matters directly relevant to the Contract.	Assistant Director Pensions	Officer Decision
Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment).	R16(1)	The Administering Authority will consider all requests on a case-by-case basis. Preference of lump sum payment for amounts of lost pension under 10% of monthly pay.	Service Manager Benefits	Case by Case – UPM

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC.	R16(10)	Any member wishing to take out a contract to purchase additional pension by payment of regular contributions shall first undergo a medical at their own expense. No medical shall be required if the member is paying for the additional pension by means of a lump sum payment. If lost pension is above 10% of monthly pay a medical/accept employer statement will be required.	Service Manager Benefits	Case by Case - UPM
Whether to turn down an application to pay an APC / SCAPC if not satisfied that the member is in reasonably good health.	R16(10)	The Administering Authority will not refuse applications to pay an APC/SCAPC where payment is by means of a lump sum payment. All other applications will be assessed on a case-by-case basis.	Service Manager Benefits	Case by Case - UPM
Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member.		This should match and be included with current policy concerning discretion to pay death grants. However we only have absolute discretion over who to pay that sum to, provided the member left the LGPS on or after 1 April 2014 and drew their benefits on or after 14 May 2018. Otherwise, we must pay any AVC lump sum to the estate.	Service Manager Benefits	Case by Case - UPM
Pension account may be kept in such form as is considered appropriate.	R22(3)(c)	The Administering Authority will decide the form in which pension accounts are kept based upon any published advice or best practice and in the most efficient manner that can be devised.	Assistant Director Pensions	Procurement/Contract

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Where there are multiple ongoing employments, in the absence of an election from the member within 12 months of ceasing a concurrent employment, decide to which record the benefits from the ceased concurrent employment should be aggregated.	TP10(9)	Where an active member with concurrent employments ceases an employment with entitlement to a deferred pension, the benefits in the deferred member's pension account must be aggregated with those in the ongoing active member's pension account and, if there is more than one such account, the one chosen by the member. If the member does not choose an account (where there is more than one active account) then the Fund will amalgamate with the active account yielding the highest benefit accrual at the relevant date.	Service Manager Benefits	Case by Case - UPM
Mandatory written policy Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement.	R30(8)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision
Mandatory written policy Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age other than on the grounds of flexible retirement (where the member only has post 31 March 2014 membership).	R30(8)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision

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Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Whether to require any strain on Fund costs to be paid "up front" by employing authority following payment of benefits under R30(6) (flexible retirement), R30(7) (redundancy / business efficiency), or the waiver (in whole or in part) under R30(8) of any actuarial reduction that would otherwise have been applied to benefits which a member voluntarily draws before normal pension age or to benefits drawn on flexible retirement.	R68(2)	All pension strain payments are required to be made by the employer as a single lump sum payment unless exceptional circumstances can be identified.	Assistant Director Pensions	Officer Decision
Mandatory written policy Whether to "switch on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60 (other than on the grounds of flexible retirement).	TPSch 2, para 1(2) & 1(1)(c)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Mandatory written policy Whether to waive any actuarial reduction for a member voluntarily drawing benefits before normal pension age other than on the grounds of flexible retirement (where the member has both pre 1 April 2014 and post 31 March 2014 membership): a) on compassionate grounds (pre 1 April 2014 membership) and / or, in whole or in part on any grounds (post 31 March 2014 membership) if the member was not in the Scheme before 1 October 2006, b) on compassionate grounds (pre 1 April 2014 membership) and / or, in whole or in part on any grounds (post 31 March 2014 membership) if the member was in the Scheme before 1 October 2006, will not be 60 by 31 March 2016 and will not attain 60 between 1 April 2016 and 31 March 2020 inclusive, c) on compassionate grounds (pre 1 April 2016 membership) and / or, in whole or in part on any grounds (post 31 March 2016 membership) if the member was in the Scheme before 1 October 2006 and will be	TP3(1), TPSch 2, para 2(1), B30(5) & B30A(5)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision

60 by 31 March 2016, d) on compassionate grounds (pre 1 April 2020 membership) and / or, in whole or in part on any grounds (post 31 March 2020 membership) if the member was in the Scheme before 1 October 2006, will not be 60 by 31 March 2016 and will attain 60 between 1 April 2016 and 31 March 2020 inclusive.				
Whether to require any strain on Fund costs to be paid "up front" by employing authority if the employing authority "switches on" the 85 year rule for a member voluntarily retiring (other than flexible retirement) prior to age 60, or waives an actuarial reduction on compassionate grounds under TPSch 2, para 2(1).	TPSch 2, para 2(3)	All pension strain payments are required to be made by the employer as a single lump sum payment unless exceptional circumstances can be identified.	Assistant Director Pensions	Officer Decision
Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	R32(7)	The Administering Authority will not ordinarily exercise this discretion, but may choose to do so in any case it considers appropriate. Any such case will be considered on its own individual merits.	Service Manager Benefits	Case by Case - UPM

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Decide whether to trivially commute a member's pension under section 166 of the Finance Act 2004 (includes pension credit members where the effective date of the Pension Sharing Order is after 31 March 2014 and the debited member had some post 31 March 2014 membership of the 2014 Scheme).	R34(1)(a)	The Administering Authority will consider applications received for commutation.	Team Leader	Case by Case - UPM
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 2004.	R34(1)(b)	The Administering Authority will consider applications received for commutation.	Team Leader	Case by Case - UPM

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Decide whether to pay a commutation payment under regulations 6 (payment after relevant accretion), 11 (de minimis rule for pension schemes) or 12 (payments by larger pension schemes) of the Registered Pension Schemes (Authorised Payments) Regulations 2009 (excludes survivor pensions and includes pension credit members where the effective date of the Pension Sharing Order is after 31 March 2014 and the debited member had some post 31 March 2014 membership of the 2014 Scheme).	R34(1)(c)	The Administering Authority will consider applications received for commutation.	Team Leader	Case by Case - UPM
Approve medical advisors used by employers (for ill health benefits)	R36(3)	Unless exceptional circumstances are identified IRMP's will always be approved where the qualification criteria set out under the regulations is met.	Assistant Director Pensions	Officer Decision
Whether to use a certificate produced by an IRMP under the 2008 Scheme for the purposes of making an ill health determination under the 2014 Scheme.	TP12(6)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Decide whether deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is the sooner.	R38(3)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision
Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health.	R38(6)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision
Decide to whom death grant is paid.	TP17(5) to (8), R40(2), R43(2) & R46(2)	The Administering Authority shall determine the recipient(s) of any death grant payable from the Scheme.	Service Manager Benefits	Case by Case - UPM
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership.	R49(1)(c)	The benefits entitlement that yields the highest overall level of benefits for the member will be selected.	Service Manager Benefits	Case by Case - UPM
Whether to set up a separate admission agreement fund.	R54(1)	Consideration will be given after taking actuarial advice.	Director	Authority Approval

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Mandatory written policy Governance Compliance Statement must state whether the admin authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the admin authority and, if they do so delegate, state: - the frequency of any committee or sub-committee meetings, - the terms, structure and operational procedures appertaining to the delegation, and - whether representatives of employing authorities or members are included and, if so, whether they have voting rights. The policy must also state: - the extent to which a delegation, or the absence of a delegation, complies with Sec of State guidance and, to the extent it does not so comply, state the reasons for not complying, and - the terms, structure and operational procedures appertaining to the local Pensions Board.	R55	The governance policy will be prepared, maintained and published in accordance with the Regulations and having regard to appropriate advice.	Director	Authority Approval

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Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Mandatory written policy Decide on Funding Strategy for inclusion in funding strategy statement.	R58	The funding strategy statement will be prepared, maintained and published in accordance with the Regulations and having regard to advice received from the Fund's advisors.	Assistant Director Pensions	Authority Approval
Whether to have a written pensions administration strategy and, if so, the matters it should include.	R59(1) & (2)	The pensions administration strategy will be prepared, maintained and published in accordance with the Regulations and having regard to appropriate advice	Assistant Director Pensions	Authority Approval
Mandatory written policy Communication policy must set out the policy on provision of information and publicity to, and communicating with, members, representatives of members, prospective members and Scheme employers; the format, frequency and method of communications; and the promotion of the Scheme to prospective members and their employers.	R61	The communication policy will be prepared, maintained and published in accordance with the Regulations and having regard to appropriate advice.	Director	Authority Approval
Whether to extend the period beyond 3 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit.	R64(2ZA)	Exercised by Administering Authority with agreement of Employer.	Service Manager Support and Engagement	Officer Decision

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Whether to suspend (by way of issuing a suspension notice), for up to 3 years, an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	R64(2A)	The Administering Authority will consider all such instances on a case by case basis	Assistant Director Pensions	Officer Decision
Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer.	R64(4)	A certificate specifying the percentage or amount by which the employer's contribution rate should be adjusted, or any individual adjustment should be increased or reduced, shall be obtained where it appears to the Administering Authority to be justified, taking account of:- • actuarial advice • all the relevant circumstances relating to that Employer, and any conditions contained in the rates and adjustments certificate issued at the last valuation of the Fund.	Assistant Director Pensions	Officer Decision

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Decide form and frequency of information to accompany payments to the Fund.	R69(4)	The associated information regarding pensionable pay and contributions deducted should be in the form of a monthly file uploaded through the Fund's Collection system. Employers should submit files by the individually agreed date. Contribution payments must be made by direct debit for the amount advised by SYPA.	Assistant Director Pensions	Forms part of Pensions Administration Statement
Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance.	R70 &TP22(2)	Where additional costs have been incurred and where it appears to the Administering Authority to be justified, taking account of all the relevant circumstances relating to that Employer, the additional costs incurred shall be recovered.	Assistant Director Pensions	Officer Decision
Whether to charge interest on payments by employers which are overdue.	R71(1)	The Fund may charge interest on a case-by-case basis as set out in the Pensions Administration Strategy Statement. Any interest payable would be charged at 1% above base rate.	Assistant Director Pensions	Officer Decision
Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decidethe manner in which those functions are to be exercised.	**R**76(4)	The Administering Authority has appointed an appropriately skilled person to assist with disputes referred to it under Stage Two of the Independent Disputes Resolution Procedure. The Administering Authority will ensure that suitable procedures are in place.	Director	Authority Approval

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Whether administering authority should appeal against employer decision (or lack of a decision).	**R**79(2)	The Administering Authority will consider all such instances on a case-by-case basis. A decision will be made by the Administering Authority having regard to the impact on the affected member(s) and any such other matters which the Administering Authority considers relevant.	Assistant Director Pensions	Officer Decision
Specify information to be supplied byemployers to enable administering authority to discharge its functions.	**R**80(1)(b) & **TP**22(1)	The Administering Authority will specify the information that is to be supplied by employers, having regard to the regulatory requirements, best practice and administrative efficiency.	Assistant Director Pensions	Pensions Strategy
Whether to pay the whole or part of the amount that is due to the personal representatives (including anything due to the deceased member at the date of death) to: the personal representatives,or anyone appearing to be beneficially entitled to theestate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965.	**R**82(2)	Where, in the Administering Authority's opinion, circumstances are such that the production of probate or letters of administration are not required, this discretion will be exercised.	Service Manager Benefits	Case by Case - UPM

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Whether, where a person is incapableof managing their affairs, to pay the whole or part of that person's pensionbenefits to another person for their benefit.	**R**83	Where, in the Administering Authority's opinion, a member is unable to manage their own affairs then it will decide, based on the circumstances of the individual case, who should receive payment of the member's benefits, having full regard for the fact that they must be applied for the benefit of the member or their beneficiaries.	Service Manager Benefits	Case by Case - UPM
Agree to bulk transfer payment.	**R**98(1)(b)	The admin auth will take actuarial advice with regard to the value of payment that should be made/received.	Assistant Director Pensions	Officer Decision
Allow transfer of pension rights into theFund.	**R**100(7)	Subject to due diligence the Fund will accept transfer values from other pension arrangements.	Team Leader Benefits	Case by Case - UPM
Where member to whom B10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member.	TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) & B10(2)	Where it appears to the Fund that if the member had made such an election it would have been beneficial in the calculation of death benefits then the Fund will make the election on behalf of the deceased member.	Team Leader Benefits	Case by Case - UPM

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1 April 2008).	TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) & TSch 1 & L23(9)	Where it appears to the Fund that if the member had made such an election it would have been beneficial in the calculation of death benefits then the Fund will make the election on behalf of the deceased member.	Team Leader Benefits	Case by Case - UPM
Decide to treat child (who has not reached the age of 23) as being in continuous full-time education or vocational training despite a break.	RSch 1 & TP17(9)(a)	Education or training shall be treated as continuous for the purpose of determining eligibility to receive a child's pension so long as we have been advised that there is prior intention to return to education or training following the break. In cases where there is uncertainty about whether or not the child intended to return to education or training following the break, each case shall be decided upon its merits.	Service Manager Benefits	Case by Case – UPM

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.	RSch 1 & TP17(9)(b)	Evidence of financial interdependency or dependency will be required at the time of death and can include confirmation of shared household spending or extra living expenses for the partner on the member's death. This can be demonstrated in any of the following ways: • a joint mortgage or tenancy • a joint bank account • joint savings and investment accounts • a joint credit arrangement • being the beneficiary of a will • being the beneficiary of life assurance • household bills in joint names	Team Leader Benefits	Case by Case - UPM
Mandatory written policy Decide policy on abatement of pre 1 April 2014 element of pensions in payment following re-employment.	TP3(13) & A70(1) & A71(4)(c)	Only members in receipt of compensatory added years will be subject to abatement where the aggregate of the pension in payment and the earnings in the new employment exceed the rate of pay on leaving the first employment.	Assistant Director Pension	Authority Approval

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Extend time period for capitalisation of added years contract.	TP15(1)(c) & TSch1 & L83(5)	An extension for an election to pay a lump sum to capitalise an added years contract will not be permitted beyond the time limit set by the regulations (not later than the expiry of the period of three months beginning on the day after the member leaves employment) unless it can be demonstrated to the satisfaction of the administering authority that the person's delay in giving notice is caused by an error or oversight on the part of the administering or employing authority.	Service Manager Benefits	Case by Case - UPM
Decide whether to delegate any administering authority functions under the Regulations.	R105(2)	Specific delegation on discretionary policy areas are, where appropriate, set out elsewhere in this document.	Director	Authority
Decide procedures applicable to the local pension board.	R106(6)	The Constitution of the South Yorkshire Pensions Board will be prepared, maintained and published in accordance with the Regulations and having regard to appropriate advice.	Monitoring Officer	Authority
Decide appointment procedures, terms of appointment and membership of local pension board.	R107(1)	The Constitution of the South Yorkshire Pensions Board will be prepared, maintained and published in accordance with the Regulations and having regard to appropriate advice.	Monitoring Officer	Authority

Section 2 • LGPS (Administration) Regulations 2008 [SI 2008/239] [A] • LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended) [SI 2007/1166] [B] • LGPS (Transitional Provisions) Regulations 2008 [SI 2008/238] [T] • LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 [SI 2014/525] [TP] • LGPS Regulations 2013 [SI 2013/2356] [R] • LGPS 1997 (as amended) [1997/1612] [L]			**Discretionary policies in relation to scheme members (excluding councillor members) who ceased active membership on or after 1 April 2008 and before 1 April 2014)**	
Discretion	**Regulation**	**Statement**	**Discretion/Delegated Discretion (Named Officer)**	**How applied (e.g. Officer Decision/Approval Form)**
Extend time period for capitalisation of added years contract where the member leaves his employment by reason of redundancy.	TR15(1)(c) &TSch1 & L83(5)	An extension for an election to pay a lump sum to capitalise an added years contract will not be permitted beyond the time limit set by the regulations (not later than the expiry of the period of three months beginning on the day after the member leaves employment) unless it can be demonstrated to the satisfaction of the administering authority that the person's delay in giving notice is caused by an error or oversight on the part of the administering or employing authority.	Service Manager Benefits	Case by Case - UPM

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits.	A45(3)	Unless, in the opinion of the Administering Authority, the circumstances are such that it would not be appropriate to recover any contributions or sums due to the Fund by a member, recovery will be by way of deductions from benefits. Where deductions from benefits are not appropriate, in the opinion of the Administering Authority, the debt will be pursued as a simple contract debt in any court of competent jurisdiction.	Service Manager Benefits	Case by Case - UPM
Whether to pay the whole or part of the amount that is due to the personnel representatives (including anything due to the deceased member at the date of death) to: • personal representatives, or • anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965.	A52(2)	Where, in the Administering Authority's opinion, circumstances are such that the production of probate or letters of administration are not required, this discretion will be exercised.	Service Manager Benefits	Case by Case - UPM

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Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Approve medical advisors used by employers (for early payment, on grounds of ill health, of a deferred benefit or a suspended Tier 3 ill health pension).	A56(2)	Unless exceptional circumstances are identified IRMP's will always be approved where the qualification criteria set out under the regulations is met.	Assistant Director Pensions	Officer Decision
Decide procedure to be followed by administering authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised.	TP23 & R76(4)	The Administering Authority has appointed an appropriately skilled person to assist with disputes referred to it under Stage Two of the Independent Disputes Resolution Procedure. The Administering Authority will ensure that suitable procedures are in place.	Director	Authority Approval
Whether administering authority should appeal against employer decision (or lack of a decision).	TP23 & R79(2)	The Administering Authority will consider all such instances on a case-by-case basis. A decision will be made by the Administering Authority having regard to the impact on the affected member(s) and any such other matters which the Administering Authority considers relevant.	Assistant Director Pensions	Officer Decision
Specify information to be supplied by employers to enable administering authority to discharge its functions.	TP23, TP22(1) & R80(1)(b)	The Administering Authority will specify the information that is to be supplied by employers, having regard to the regulatory requirements, best practice and administrative efficiency.	Assistant Director Pensions	Forms part of Pensions Administration Statement
Mandatory written policy Decide policy on abatement of pensions following re-employment.	TP3(13), A70(1) & A71(4)(c	Only members in receipt of compensatory added years will be subject to abatement where the aggregate of the pension in payment and the earnings in the new employment exceed the rate of pay on leaving the first employment.	Assistant Director Pension	Authority Approval

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Where member to whom B10 applies (use of average of 3 years pay within the period of 13 years ending with the last day of active membership for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member.	B10(2)	The Administering Authority will assess all such instances on a case-by-case basis.	Team Leader Benefits	Case by Case - UPM
Whether to pay the whole or part of a child's pension to another person for the benefit of that child.	B27(5)	The Administering Authority may be willing to exercise this discretion, but shall take whatever steps it considers reasonable and appropriate to ensure the money is to be used for the child's benefit.	Service Manager Benefits	Case by Case - UPM
Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	A52A	Where, in the Administering Authority's opinion, a member is unable to manage their own affairs then it will decide, based on the circumstances of the individual case, who should receive payment of the member's benefits, having full regard for the fact that they must be applied for the benefit of the member or their beneficiaries.	Service Manager Benefits	Case by Case - UPM

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Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Mandatory written policy Whether to “switch on” the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60.	TPSch 2, para 1(2) & 1(1)(c)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision
Mandatory written policy Whether to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early under B30 (member).	B30(5), TPSch 2, para 2(1)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision
Mandatory written policy Whether to “switch on” the 85 year rule for a pensioner member with deferred benefits voluntarily drawing benefits on or after age 55 and before age 60.	TPSch 2, para 1(2) & 1(1)(c)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision
Mandatory written policy Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits paid early under B30A (pensioner member with deferred benefits).	B30A(5), TPSch 2, para 2(1)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Whether to require any strain on Fund costs to be paid "up front" by employing authority if the employing authority "switches on" the 85 year rule for a member voluntarily retiring prior to age 60, or waives an actuarial reduction on compassionate grounds under TPSch 2, para 2(1).	TPSch 2, para 2(3)	Where an employer has exercised their discretion to waive a reduction that would otherwise apply to a member's benefits, the employer must meet the additional charge on the Fund resulting from that decision in the form of a one-off payment.	Assistant Director Pensions	Funding Strategy Statement
Decide whether deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria.	B31(4)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision
Decide whether a suspended ill health tier 3 member is permanently incapable of undertaking any gainful employment.	B31(7)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Decide to whom death grant is paid.	B23(2), B32(2), B35(2), TSch1 & L155(4)	The Administering Authority shall determine the recipient(s) of any death grant payable from the Scheme.	Service Manager Benefits	Case by Case - UPM
Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.	RSch1 & TP17(9)(b)	Evidence of financial interdependency or dependency will be required at the time of death and can include confirmation of shared household spending or extra living expenses for the partner on the member's death. This can be demonstrated in any of the following ways: • a joint mortgage or tenancy • a joint bank account • joint savings and investment accounts • a joint credit arrangement • being the beneficiary of a will • being the beneficiary of life assurance • household bills in joint names	Team Leader Benefits	Case by Case - UPM

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Decide to treat child (who has not reached the age of 23) as being in continuous education or vocational training despite a break.	RSch 1 & TP17(9)(a)	Education or training shall be treated as continuous for the purpose of determining eligibility to receive a child's pension so long as we have been advised that there is prior intention to return to education or training following the break. In cases where there is uncertainty about whether or not the child intended to return to education or training following the break, each case shall be decided upon its merits.	Service Manager Benefits	Case by Case – UPM
Decide whether to trivially commute a member's pension under section 166 of the Finance Act 2004.	B39(1)(a) & T14(3)	The Administering Authority will consider applications received for commutation.	Team Leader	Case by Case
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 2004.	R39(1)(b)	The Administering Authority will consider applications received for commutation.	Team Leader	Case by Case

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Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Decide whether to pay a commutation payment under regulations 6 (payment after relevant accretion), 11 (de minimis rule for pension schemes) or 12 (payments by larger pension schemes) of the Registered Pension Schemes (Authorised Payments) Regulations 2009 (excludes survivor pensions and pension credit members).	R39(1)(c)	The Administering Authority will consider applications received for commutation.	Team Leader	Case by Case
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership.	B42(1)(c)	The benefits entitlement that yields the highest overall level of benefits for the member will be selected.	Team Leader	Case by Case – UPM
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1 April 2008).	TSch 1 & L23(9)	Where it appears to the Fund that if the member had made such an election it would have been beneficial in the calculation of death benefits then the Fund will make the election on behalf of the deceased member.	Team Leader Benefits	Case by Case - UPM

Section 3 • LGPS Regulations 1997 [SI 1997/1612] • The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [SI 2008/238] [prefix T] • The Local Government Pension Scheme (Administration) Regulations 2008 [SI 2008/239] [prefix A] • LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 [SI 2014/525] [TP] • The Local Government Pension Scheme Regulations 2013 [SI 2013/2356] [prefix R]			Discretionary policies in relation to: • active welsh councillor members, and • councillor members who ceased active membership on or after 1 April 1998, and • any other scheme members who ceased active membership on or after 1 April 1998 and before 1 April 2008	
Discretion	**Regulation**	**Statement**	**Discretion/Delegated Discretion (Named Officer)**	**How applied (e.g. Officer Decision/Approval Form)**
Mandatory written policy Whether to "switch on" the 85 year rule for a member with deferred benefits voluntarily drawing benefits on or after age 55 and before age 60. Note: TPSch 2, para 2(2) does not reference para 1(1)(f) so strictly speaking there is no requirement to publish a policy under this regulation or R60. However, we understand that this is simply a regulatory omission and the appropriate party should publish a policy accordingly.	TPSch 2, para 1(2) & 1(1)(f) & R60	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Mandatory written policy Waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early.	31(5) & TPSch 2, para 2(1)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision
Decide to whom death grant is paid.	38(1) & 155(4)	The Administering Authority shall determine the recipient(s) of any death grant payable from the Scheme.	Service Manager Benefits	Case by Case - UPM
Decide to treat child (who has not reached the age of 23) as being in continuous education or vocational training despite a break.	TP17(9)(a) & RSch 1	Education or training shall be treated as continuous for the purpose of determining eligibility to receive a child's pension so long as we have been advised that there is prior intention to return to education or training following the break. In cases where there is uncertainty about whether or not the child intended to return to education or training following the break, each case shall be decided upon its merits.	Service Manager Benefits	Case by Case – UPM
Apportionment of children's pension amongst eligible children.	47(1)	The Administering Authority shall consider each case on its own individual merits and shall apportion a children's pension as the Administering Authority considers appropriate.	Service Manager Benefits via Assistant Director Pensions	Case by Case – UPM

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Pay child's pension to another person for the benefit of the child.	47(2)	The Administering Authority may be willing to exercise this discretion, but shall take whatever steps it considers reasonable and appropriate to ensure the money is to be used for the child's / children's benefit.	Service Manager Benefits via Assistant Director Pensions	Case by Case – UPM
Decide whether to trivially commute a member's pension under section 166 of the Finance Act 2004 (includes pre 1 April 2008 leavers or Pension Credit members where the effective date of the Pension Sharing Order was pre 1 April 2014 or where the effective date of the Pension Sharing Order is after 31 March 2014 but the debited member had no post 31 March 2014 membership of the 2014 Scheme).	49(1) & T14(3)	The Administering Authority will consider applications received for commutation.	Team Leader	Case by Case - UPM
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 2004.	49(1)	The Administering Authority will consider applications received for commutation.	Team Leader	Case by Case - UPM

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Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Decide whether to commute benefits due to exceptional ill-health (including Pension Credit members where the effective date of the Pension Sharing Order was pre 1 April 2014 or where the effective date of the Pension Sharing Order is after 31 March 2014 but the debited member had no post 31 March 2014 membership of the 2014 Scheme).	50 and 157	The Administering Authority will consider applications received for commutation.	Team Leader	Case by Case - UPM
Whether to require any strain on Fund costs to be paid "up front" by employing authority following early voluntary retirement of a councillor, or early payment of a deferred benefit on health grounds or from age 50 and prior to age 55 with employer consent.	80(5)	All pension strain payments are required to be made by the employer as a single lump sum payment unless exceptional circumstances can be identified.	Assistant Director Pensions	Officer Decision
Whether to require any strain on Fund costs to be paid "up front" by employing authority if the employing authority "switches on" the 85 year rule for a member voluntarily retiring on or after age 55 and prior to age 60, or waives an actuarial reduction on compassionate grounds under TPSch 2, para 2(1).	TPSch 2, para 2(3)	All pension strain payments are required to be made by the employer as a single lump sum payment unless exceptional circumstances can be identified.	Assistant Director Pensions	Officer Decision

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Timing of pension increase payments by employers to fund.	91(6)	The Administering Authority will require payment by employers on a monthly basis.	Assistant Director Pensions	PAS
Whether to pay the whole or part of the amount that is due to the personnel representatives (including anything due to the deceased member at the date of death) to: • personal representatives, or • anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965.	95	Where, in the Administering Authority's opinion, circumstances are such that the production of probate or letters of administration are not required, this discretion will be exercised.	Service Manager Benefits	Case by Case - UPM
Approve medical advisors used by employers.	97(10)	Unless exceptional circumstances are identified IRMP's will always be approved where the qualification criteria set out under the regulations is met.	Assistant Director Pensions	Officer Decision
Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised	TP23 & R76(4)	The Administering Authority has appointed an appropriately skilled person to assist with disputes referred to it under Stage Two of the Independent Disputes Resolution Procedure. The Administering Authority will ensure that suitable procedures are in place.	Director	Authority Approval

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision)
Whether administering authority should appeal against employer decision (or lack of a decision)	TP23 & R79(2)	The Administering Authority will consider all such instances on a case-by-case basis. A decision will be made by the Administering Authority having regard to the impact on the affected member(s) and any such other matters which the Administering Authority considers relevant.	Assistant Director Pensions	Officer Decision
Specify information to be supplied by employers to enable administering authority to discharge its functions.	TP23 & TP22(1) & R80(1)(b	The Administering Authority will specify the information that is to be supplied by employers, having regard to the regulatory requirements, best practice and administrative efficiency.	Assistant Director Pensions	Forms part of Pensions Administration Statement
Discharge Pension Credit liability.	147	The Administering Authority will consider applications on a case by case basis.	Service Manager Benefits	Case by Case – UPM

Section 4 • LGPS Regulation 1995 [SI 1995/1019] • The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 [SI 1997/1613] [prefix TL] • The Local Government Pension Scheme Regulations 1997 {SI 1997/1612] (as amended) [prefix L] • The Local Government Pension Scheme (Administration) Regulations 2008 [SI 2008/239] [prefix A] • LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 [SI 2014/525] [TP] • The Local Government Pension Scheme Regulations 2013 [SI 2013/2356] [prefix R]			Discretionary policies in relation to scheme members who ceased active membership before 1 April 1998	
Discretion	**Regulation**	**Statement**	**Discretion/Delegated Discretion (Named Officer)**	**How applied (e.g. Officer Decision/Approval Form)**
Mandatory written policy Grant application for early payment of deferred benefits on or after age 50 on compassionate grounds. Although the common provisions of the 1997 Transitional provisions regulations do not specify regulation D11(2)(c), there intention was that it should apply to this regulation.	TP3(5A)(vi), TL4, L106(1) & D11(2)(c)	**Exercised by Administering Authority where Employer has become defunct.** The Authority will exercise discretion in line with the employer discretions policy .	Director	Officer Decision
Decide to whom death grant is paid.	E8	The Administering Authority shall determine the recipient(s) of any death grant payable from the Scheme.	Service Manager Benefits	Case by Case - UPM

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Discretion	**Regulation**	**Statement**	**Discretion/Delegated Discretion (Named Officer)**	**How applied (e.g. Officer Decision/Approval Form)**
Whether to pay spouse's pensions for life (rather than ceasing during any period of remarriage or co-habitation).	F7	The Administering Authority will not suspend a spouse's pension for life following remarriage or a period of co-habitation.	Assistant Director Pensions	Authority
Decide to treat child (who has not yet reached the age of 23) as being in continuous education or vocational training despite a break.	TP17(9)(a) & RSch 1	Education or training shall be treated as continuous for the purpose of determining eligibility to receive a child's pension so long as we have been advised that there is prior intention to return to education or training following the break. In cases where there is uncertainty about whether or not the child intended to return to education or training following the break, each case shall be decided upon its merits.	Service Manager Benefits	Case by Case – UPM
Apportionment of children's pension amongst eligible children.	G11(1)	The Administering Authority shall consider each case on its own individual merits and shall apportion a children's pension as the Administering Authority considers appropriate.	Service Manager Benefits via Assistant Director Pensions	Case by Case – UPM
Pay child's pension to another person for the benefit of the child.	G11(2)	The Administering Authority may be willing to exercise this discretion, but shall take whatever steps it considers reasonable and appropriate to ensure the money is to be used for the child's / children's benefit.	Service Manager Benefits via Assistant Director Pensions	Case by Case – UPM

Discretion	Regulation	Statement	Discretion/Delegated Discretion (Named Officer)	How applied (e.g. Officer Decision/Approval Form)
Mandatory written policy Abatement of pensions following re-employment.	TP3(13), A70(1) & A71(4)(c)	Only members in receipt of compensatory added years will be subject to abatement where the aggregate of the pension in payment and the earnings in the new employment exceed the rate of pay on leaving the first employment.	Assistant Director Pension	Authority Approval
Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised	TP23 & R76(4)	The Administering Authority has appointed an appropriately skilled person to assist with disputes referred to it under Stage Two of the Independent Disputes Resolution Procedure. The Administering Authority will ensure that suitable procedures are in place.	Director	Authority Approval
Whether administering authority should appeal against employer decision (or lack of a decision)	TP23 & R79(2)	The Administering Authority will consider all such instances on a case-by-case basis. A decision will be made by the Administering Authority having regard to the impact on the affected member(s) and any such other matters which the Administering Authority considers relevant.	Assistant Director Pensions	Officer Decision
Specify information to be supplied by employers to enable administering authority to discharge its functions.	TP23, TP22(1) & R80(1)(b)	The Administering Authority will specify the information that is to be supplied by employers, having regard to the regulatory requirements, best practice and administrative efficiency.	Assistant Director Pensions	Forms part of Pensions Administration Statement

Section 5 **• The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended) [SI 2000/1410]**			**Discretionary policies in relation to former employees of an employing authority that is a body that is a scheduled body, a designate body, or a body that is deemed to be a scheduled body under the LGPS Regulations 2013 and equivalent predecessor regulations (excluding admitted bodies).**	
Discretion	**Regulation**	**Statement**	**Discretion/Delegated Discretion (Named Officer)**	**How applied (e.g. Officer Decision/Approval Form)**
Agree to pay annual compensation on behalf of employer and recharge payments to employer.	31(2)	The Administering Authority will consider such instances at employer level .	Assistant Director Pensions	Case by Case – EPIC

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Section 6 • The Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011 [SI 2011/1791]			Discretionary policy to be maintained by administering authority	
Discretion	**Regulation**	**Statement**	**Discretion/Delegated Discretion (Named Officer)**	**How applied (e.g. Officer Decision/Approval Form)**
To decide whether it is legally able to offer voluntary scheme pays (to determine legality see paragraph 223 onwards of the Annual Allowance guide published under the 'Guides and sample documents' page of www.lgpsregs.org); and, if so, to decide the circumstances (if any) upon which it would do so.	2	The Administering Authority will automatically offer this facility to scheme members.	Service Manager Benefits	Case by Case – UPM/EPIC

Agenda Item 14

SOUTH YORKSHIRE PENSIONS AUTHORITY

Agenda Item

Subject	**Regulatory and Policy Update**	**Status**	For Publication Not For Publication
Report to	Local Pension Board	**Date**	7th September 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 update the Board on developments in the policy and regulatory arena.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the contents of the report and the work underway in relation to various policy and regulatory updates.**

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3 Link to Corporate Objectives

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

Effective and Transparent Governance

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

Maintaining a clear line of sight on the policy agenda and developing considered responses to changes and developments is a key element of good governance.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report touch on the risks related to data and regulatory compliance identified in the Corporate Risk Register. This is particularly true of the McCloud related issues. The developments in relation to the Divestment Boycotts and Sanctions legislation and pooling may well create new compliance issues and hence risks that will need to be incorporated in the risk register in due course.

5 Background and Options

5.1 This report provides the Board with an update on three specific developments in the policy and regulatory arena:

- The publication of draft McCloud regulations and particular proposals in relation to aggregations on which further consultation is being undertaken.
- The publication of the Economic Activity of Public Bodies (Overseas Matters) Bill which seeks to enact the Government's proposals in relation to divestment, boycotts and sanctions (DBS).
- The publication of the long-awaited consultation on the further development of investment pooling and associated investment issues.

McCloud

5.2 The Government has now published draft regulations which it intends to lay before parliament at such time that they can become effective in time for the October deadline for putting the McCloud remedy into effect. Alongside this there is further consultation seeking general views on the following areas:

- Aggregation – Determining the rules applicable to decide whether a member with multiple LGPS memberships has underpin protection in some or all of these.
- Club transfers – Determining the rules applicable to decide whether a member with previous membership of another public service pension scheme has underpin protection in respect of their LGPS membership.
- Flexible retirement – How the underpin should work in respect of flexible retirement, particularly for cases of 'partial' flexible retirement, where a member does not take all their accrued career average benefits.
- Divorce – How the scheme's divorce and underpin calculations interact.
- Injury allowances – How a retrospective increase to a member's pension arising from McCloud remedy may impact any injury allowances payable.

5.3 The Government is also seeking technical comments and comments on implementation in the following further areas:

- Excess teacher service – The retrospective admission to the LGPS of certain teachers who have multiple employments.
- Compensation – The circumstances where a member may be paid compensation where they have suffered a loss relating to the age discrimination found in the McCloud case or the McCloud remedy.
- Interest – The interest terms that will apply where payments are made later than would have been the case, due to the McCloud discrimination.

5.4 Some of these are particularly technical issues (interaction with divorce) or areas where established practice is being followed (interest payments). Some, however, will by the Government's own admission increase the administrative complexity of the scheme (which is already extremely complicated) and present greater challenges than expected for administrators. In part this flows from an understandable desire to ensure that the implementation of the remedy is as far as possible able to withstand further legal challenge. However, in the areas of aggregations, club transfers and excess teacher service there is potentially very significant extra work and investigation involved in every case also involving securing information from other pension schemes which will add to the time taken to resolve cases. It should also be noted that the expectation is that fewer than 1% of cases in the LGPS will be affected and of those only a very small proportion will see a material change in their benefits.

5.5 Locally we have established a project team to work through these issues and are developing the policy statements that are required to be in place to establish how missing and incomplete data should be addressed as well as a communications strategy. We are also testing the various calculations required within the administration system as they are released and so far no significant issues have emerged.

Divestment Boycotts and Sanctions

5.6 The Government laid the Economic Activity of Public Bodies (Overseas Matters) Bill before parliament on 19th June, and it is now in Committee in the House of Commons. The Bill seeks to enact their commitment to preventing public bodies either through procurement or investment decisions from "running their own foreign policy". In simple terms the Bill prevents LGPS funds from making decisions to divest from companies operating in particular countries at the urging of campaign groups. There is an enforcement regime in relation to the LGPS which will be operated by the Pensions Regulator. This Bill addresses a range of complex and difficult issues and raises some challenges which it appears will be difficult to navigate. Writing in Local Government Chronicle Phil Triggs the Tri-Borough Director of Pensions and Treasury who runs three LGPS Funds in London asked what happens:

"where an analyst has anticipated that a company's value will decrease because of ESG decisions it has made… if that strategy falls within the new law's definition of not being in line with UK foreign defence policy, and the law therefore states that the fund must remain invested, and the fund therefore loses value, who will pay for that?... The government's current message is that 'this is not designed to get in the way of ESG factors, excepting the very narrow area of UK foreign or defence policy'. But this is absolutely not a very narrow area. …. We could end up in a scenario with never ending arguments involving ESG factors versus foreign and defence policy."

5.7 The Bill is proceeding through Parliament and undoubtedly statutory guidance and amendments to the LGPS Investment Regulations will be required to ensure that LGPS Funds do not inadvertently fall foul of the law. The involvement of the Pensions Regulator establishes a new precedent and while in the context it appears preferable to the alternative of the Department being the enforcement agency beginning to involve the Regulator in LGPS investment matters does break new ground and it remains to be seen whether this presages wider moves to involve the regulator in these aspects of LGPS.

5.8 Locally while SYPA is regularly lobbied to divest particularly from companies operating in the Occupied Palestinian Territories the policy framework around issues of this sort and the fact that as investments are made through pooled vehicles would appear to make it difficult for us to step over the line drawn in the Bill. However, there is a significant amount of detail which will only become clear in regulations and guidance and once the law is tested in court.

Investment

5.9 Following the Chancellor's Mansion House speech the Government published the long-awaited consultation on pooling which will ultimately lead to the production of more detailed statutory guidance and potentially some amendments to the Investment Regulations. The key points are:

- A clear timeline for the holding of all listed assets in pool run collective vehicles by March 2025 and a clear intention to use existing powers to make sure this happens. SYPA has already met this target.
- Clearer plans and timelines for the overall transition and what appears to be a higher bar for holding assets outside of the pool.
- A clearer view from Government on what counts as pooling and also how strategic asset allocation (the responsibility of funds) should be defined. This includes a clear view that pools should be more involved in advising on strategy.
- A clear view that the number of pools should be reduced with a minimum scale of at least £50bn and preferably £75bn. This should though be achieved through voluntary mergers.
- While accepting that pools might invest in each other's products a clear intention that there should not be competition between pools. The intent here is to allow pools to specialise in specific areas.
- A requirement to publish a plan showing how each Fund will move to achieve investment of 5% of AUM in projects which support "levelling up" and to report on the impact of these projects using the metrics in the "levelling up" white paper. The work already done by SYPA in this area anticipates this.
- A requirement to consider investing up to 10% of AUM in Private Equity and growth capital and to report on this.
- Detailed technical proposals concerned with the use of investment consultants (incorporating elements of the regulation of private sector schemes) and the definition of investment.

5.10 There is a very considerable amount of information to digest and a great deal of detail as well as some remaining unanswered questions in this document and an online session was held for Board and Authority members a recording of which is available for members who were unable to attend in the online reading room. A report elsewhere on the agenda presents a draft consultation response for approval by the Authority.

5.11 It is quite clear that this process is now being driven by HM Treasury and that there will be considerable momentum behind it as a result. It also seems to be true that there is little if anything within the consultation that would be a matter of party-political contention and therefore it is important to work on the basis that these proposals will happen even if there are changes of emphasis and different timelines in the event of a change of government following the General Election.

6 Implications

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

Financial	None directly
Human Resources	None
ICT	None
Legal	Changes to the regulations and new statutory guidance will need to go through a formal consultation process which will allow further debate on the detail.
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**
McCloud Supplementary Issues and Scheme Regulations	'McCloud' remedy in the LGPS – supplementary issues and scheme regulations - GOV.UK (www.gov.uk)
Economic Activity of Public Bodies (Overseas Matters) Bill	Economic Activity of Public Bodies (Overseas Matters) Bill - Parliamentary Bills - UK Parliament
LGPS Investment Consultation	Local Government Pension Scheme (England and Wales): Next steps on investments - GOV.UK (www.gov.uk)

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Agenda Item

Subject	**Consultation on LGPS Investment Matters**	**Status**	For Publication
Report to	Authority	**Date**	7th September 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 response to the Government's consultation "Local Government Pension Scheme (England and Wales): Next steps on investments" as set out at Appendix A.

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2 Recommendations

2.1 Members are recommended to:

a. **Approve the consultation response set out in Appendix A and delegate authority to the Director in consultation with the Chair to finalise the response in the light of any further feedback from advisers and Border to Coast partners.**

b. **Note the work identified in the body of this report which will be undertaken in preparation for the introduction of the changes set out in the consultation.**

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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.

Effective and Transparent Governance

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

The way in which investment pooling operates and the nature of the assets in which the Fund invests clearly impact on the level of returns achieved and potentially could have responsible investment implications. As such this consultation addresses issues fundamental to the ongoing success of the Authority in delivering its investment strategy and it is therefore important for scheme members that the debate on the Authority's response is held in as open and transparent a way as possible.

4 Implications for the Corporate Risk Register

The outcome of this consultation will undoubtedly have implications for the risks related to Border to Coast and the investment strategy included in the Corporate Risk Register.

5 Background and Options

5.1 The Government published a consultation "Local Government Pension Scheme (England and Wales): Next steps on investments" on 11th July 2023 shortly after the Chancellor of the Exchequer's Mansion House speech which set out a range of proposals for using pension funds (both LGPS and private sector funds) to support growth in the UK economy. This long-awaited consultation follows the abortive consultation on draft statutory guidance on investment and pooling issues in 2019, which was stalled following threatened legal action against the Government.

5.2 The key points raised in the consultation are:

- A clear timeline for the holding of all listed assets in pool run collective vehicles by March 2025 and a clear intention to use existing powers to make sure this happens. SYPA has already met this target.
- Clearer plans and timelines for the overall transition and what appears to be a higher bar for holding assets outside of the pool.
- A clearer view from Government on what counts as pooling and also how strategic asset allocation (the responsibility of funds) should be defined. This includes a clear view that pools should be more involved in advising on strategy.
- A clear view that the number of pools should be reduced with a minimum scale of at least £50bn and preferably £75bn. This should though be achieved through voluntary mergers. Notably officials in various public fora have indicated that the Welsh pool should be seen as being outside of this process.
- While accepting that pools might invest in each other's products a clear intention that there should not be competition between pools. The intent here is to allow pools to specialise in specific areas.
- A requirement to publish a plan showing how each Fund will move to achieve investment of 5% of AUM in projects which support "levelling up" and to report on the impact of these projects using the metrics in the "levelling up" white paper. The work already done by SYPA in this area anticipates this.
- A requirement to consider investing up to 10% of AUM in Private Equity and growth capital and to report on this.
- Detailed technical proposals concerned with the use of investment consultants (incorporating elements of the regulation of private sector schemes) and the definition of investment.

5.3 A briefing session for members was held on 2nd August and a recording of this is available for members who were unable to attend in the online reading room.

5.4 A draft response from the Authority is set out for approval at Appendix A. This is built on a core response developed with the Border to Coast operating company and other Partner Funds with additions reflecting SYPA's interests and concerns.

5.5 There are several issues to bear in mind in considering our response this consultation, as set out at Appendix A:

- This is not a consultation on the principles involved, but rather focuses on practical issues associated with any of the proposals.
- The proposals made and issues addressed are not a matter of contention between political parties and therefore while timescales for implementation may differ the result of the General Election which is due next year is not likely to change the direction of policy.
- While we might differ on some of the detail of the proposals made the direction of travel is one that is supportive of the approach to pooling which the Authority and Border to Coast have taken and of the approach to Place Based Impact Investing which the Authority approved last March. Therefore, the broad tenor of any response will be positive.

5.6 Given that the direction of travel is clear it would be sensible for the Authority working with Border to Coast partners to begin to get ahead of things in order for us to be able to control our own destiny in this process, this approach is reflected in a number of pieces of work which are ongoing and which it is intended to complete over the remainder of the financial year, including:

- The completion of a plan setting out the timescale for the transition of the remaining legacy assets into the Pool, which it is intended to bring to the March meeting of the Authority.
- The development and agreement by Partner Funds of a collaborative strategy for pooling.
- The completion of the Partnership's 2030 Strategy work which will be the subject of a member workshop in October and an initial briefing following this meeting and which will be reflected in the Company's strategic plan which will be agreed early in 2024.

5.7 While the direction of travel in the consultation can be seen as an endorsement of the "Border to Coast" way of doing pooling it is important that we are not complacent and this is reflected both in the proposed response and proposed future work.

6 <u>Implications</u>

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

Financial	None directly
Human Resources	None
ICT	None
Legal	The Consultation presages changes to the Investment Regulations and new Statutory Guidance.
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**
Consultation Document – Local Government Pension Scheme (England and Wales): Next steps on investments	Local Government Pension Scheme (England and Wales): Next steps on investments - GOV.UK (www.gov.uk)

Response to the Consultation "Local Government Pension Scheme (England and Wales): Next steps on investments" by South Yorkshire Pensions Authority

Introduction

South Yorkshire Pensions Authority is a unique LGPS Administering Authority being a democratically accountable single purpose local authority created in the aftermath of the abolition of the metropolitan counties in 1986, with the sole purpose of ensuring that funds exist to pay pensions when they become due. The Authority is responsible for the management of the South Yorkshire Pension Fund which has assets of £10.2bn and a membership of c176,000 working for 548 different employers as of March 2023. This makes it one of the largest funds within the Local Government Pension Scheme in the United Kingdom and indeed one of the larger defined benefit pension schemes in the UK.

The Authority is a shareholder and investor in the Border to Coast Pensions Partnership, having prior to pooling successfully managed most of its assets in house, and consequently had a very low, arguably artificially low, cost base. As the Authority also managed the assets of the South Yorkshire Transport Fund (which has subsequently been absorbed into the Greater Manchester Pension Fund) it was unique in England up to 2018 in being a regulated LGPS Fund. SYPA's participation in Border to Coast was by no means a given and the Authority debated long and hard before coming to a decision and was also subject to considerable pressure to take an alternative course. The key deciding factors were the presence of an FCA regulated entity at the centre of the Border to Coast approach and a commitment to internal management which assisted the Authority in addressing the sustainability of its operating model, while minimising the additional costs involved in doing so.

At the time of writing over 70% of the South Yorkshire Fund's assets are held in investment products provided and managed by Border to Coast, including all listed assets. Of the remaining assets the vast bulk are legacy alternatives which will be reinvested with Border to Coast on realisation and real estate which will transition into pooled products during latter part of 2023 and 2024. The remaining assets which it is currently planned will be no more than 5% of the value of the Fund will be made up of local investments within our Place Based Impact strategy, which is specifically designed to support "levelling up" and a portfolio of directly held agricultural land which will act as a carbon offset as well as providing a steady income return. Work is currently underway to place this latter portfolio into an investment structure that would allow it to become part of a pooled natural capital product if there were sufficient demand for and it met the criteria for inclusion in such a product.

The Authority's core objective is to ensure sustainable and affordable payment of pensions for our scheme members, as is the case for our 10 partners in Border to Coast. We welcome this consultation on the future of LGPS investments and believe it is an important contribution to how we can collectively build on some of the good practice that has evolved across the LGPS since 2016.

The Authority has benefitted significantly from its participation in Border to Coast over and above the original objectives set out for pooling. Partner Funds and the operating company are collectively developing innovative and effective investment propositions – such as 'Climate Opportunities', which is delivering investment to drive the transition to Net Zero. Our collective scale also increases our influence as an active steward – whether on executive pay, climate change, or on driving standards in Responsible Investment and ESG disclosure.

SOUTH YORKSHIRE
PENSIONS AUTHORITY

While significant progress has been made, our evolution is not fixed. We recognise the need to review and adapt how we operate, both as a Partnership and an individual Fund to reflect both our individual development and to meet the various dynamic challenges that may impact us in pursuit of paying pensions in an affordable and sustainable manner.

The key messages in our response are:

- We see the approach to pooling outlined in the consultation as reflecting the approach taken by Border to Coast (and some other pools).
- We welcome the encouragement to complete the pooling of listed assets generated from the proposed March 2025 deadline and have already met that requirement.
- While we understand the Government's desire to see consolidation amongst the Pools, we do have some concerns about the impact of such a process on business as usual and the potential for it to destabilise the current eco-system.
- We are supportive of steps to improve the consistency and transparency of reporting and note the need to ensure compliance to achieve a clear and consistent picture of performance and impact across the LGPS.
- We see considerable investment opportunity in the "levelling up" agenda and already have a plan in place to achieve an allocation of 5% of the Fund to a Place Based Impact strategy and support efforts to achieve consistency of reporting in this area.
- While cautious about the allocation of 10% of the Fund to pure play Private Equity in terms of our risk appetite we already allocate more than 10% of the Fund to the more broadly defined "growth capital" which would be supportive of the Government's policy intent.
- Across many of the questions raised there are challenges around securing compliance with current guidance and the process of implementing the Government's proposed changes will need to take this into account.
- The additional requirements outlined in this consultation may exacerbate the resourcing challenges within Funds.

While the Government's desire to achieve the implementation of its policy intent through statutory guidance is understandable, we do feel there are several areas where changes to the regulations will be required to deliver the policy intent, for example some of the issues with the current structure of annual reports flow directly from the existing regulations rather than guidance.

We also see it as regrettable, given the importance of governance to the successful delivery of the Government's policy intent in this consultation that there has been no comprehensive response to the Scheme Advisory Board's statutory recommendations in relation to the Good Governance Project, as we feel that significant progress in this area will assist in driving progress on the agenda reflected in this consultation.

We would welcome the opportunity to discuss any part of our response in more detail.

Turning to each of the consultation questions in turn.

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

We recognise that the ecosystem in which the LGPS operates is changing and it is important to acknowledge and adjust to this, to ensure we can continue to collectively deliver for LGPS members. This includes:

- The increasing regulatory and governance complexity and burden on individual Funds.
- The maturing (and move to buy-out solutions) of the corporate DB sector reduces both the experience in, and wider sector support for, open DB schemes. This will, over time, reduce the pool of experienced talent the LGPS has traditionally recruited from. The PLSA research, "LGPS: Views from inside the scheme" highlighted the challenges individual Funds have in recruiting the right staff, across all aspects of their business.
- With the decline of open DB schemes, and the significant growth in DC schemes, a gradual and possible accelerating, decline in the knowledge and capacity of the wider sector (e.g., investment consultants) to support the open DB schemes and LGPS in particular (and their specific investment requirements which reflect the nature of the supporting sponsor covenant).

These issues can be addressed through:

- Engaged and informed Pension Committees and Local Pension Boards, supported by good teams of officers, with the right levels of delegation, resources, and support to develop, and manage the oversight of, their investment strategies.
- Well-resourced pools, with the in-house investment capabilities to support the development and implementation of the investment strategies of their Partner Funds. As centres of expertise these pools can provide wider support for Partner Funds.

However, in operating any system, good governance is fundamental. This can cover a wide range of issues but includes the establishment of a clear division of responsibilities, robust oversight and simplified, flexible decision-making, including effective delegations to specialists trusted to exercise sound judgement over the long-term. The importance of this is often underestimated. The "governance premium" is thought to be around 0.6% per annum additional return (and has been estimated as high as 1-2% p.a.) – as can be evidenced via asset owners with "good governance" (this relates primarily to clear delegation of investment decision-making with strong oversight and scrutiny by the asset owner board) based on research[1] over the last 20 years. We recognise that standards are variable with smaller schemes less likely to rate themselves as highly on a number of important measures of quality. While each fund and pool should consider their own governance frameworks, progress on bringing the 'Good Governance' review, and in particular the requirement for regular independent reviews of governance, into regulations will support all LGPS funds and progress should therefore be welcomed by all.

[1] Pension Policy Institute: "Defined Benefits: the role of governance"

Scale can deliver significant benefits. A 2022 publication[2] by CEM looked at the case for scale for pension schemes. Its findings were that asset pooling led to lower staff costs per assets invested (due to the ability to internalise certain investment capabilities) and to lower external management fees (due to the negotiating strength that comes from the value of mandates being placed, negotiated by professional investors whose interests are fully aligned with the ultimate asset owners).

However, scale doesn't always deliver additional benefits; seeking scale without addressing issues such as good governance, a common vision and culture (within the Pool and among Partner Funds), unnecessary complexity of investment strategies, and client needs, can either inhibit, or damage, a pool's ability to deliver.

Delivering the benefits of pooling can be challenging and requires an understanding at officer and elected member level of both the benefits and costs of compromise, and an ability to assess where such compromise does not have a material impact on the risk/return profile that the Partner Fund wishes to achieve. This also requires Partner Fund advisers to consider the benefits that come from pooling (in both investment outcomes and reduced ongoing governance / advisory costs) i.e., to consider implementation alongside model-based investment strategy advice. This in turn is linked to a sense of ownership and a view that the pool is a part of the system in which we operate, as opposed to be something "other" (which could lead to an adversarial approach being taken between the pool and its Partner Funds).

A key point for Funds is that they need appropriate capacity and capabilities to deliver their objectives. Indeed, we note the previous Communities and Local Government Committee report, "Local authority investments[3]", highlighted the dangers to Local Authorities on the over reliance on external advisers (and not sufficient in-house expertise). The pay differentials existing between funds and the private sector and emerging between funds and pools also challenge the ability to secure appropriate in-house expertise, which is necessary (and perhaps more important) even in an almost wholly outsourced operating model. In this context, individual Funds may also need to recognise how they can achieve the benefits of scale in delivering a robust and resilient operating model.

Turning to consolidation of the current pools, the international evidence backing the Government's intent is indisputable. However, the international comparators are often single entities or entities with relatively small numbers of partners. The larger the number of partners involved the more difficult it will be to achieve consensus and true collaboration and for the various partner funds to be genuinely "like minded".

[2] A Case For Scale February 2022
[3] https://publications.parliament.uk/pa/cm200809/cmselect/cmcomloc/164/164i.pdf

The process of consolidation like any merger and acquisition (M&A) process has a range of inherent risks in terms of the bringing together of different cultures in the new entity and the fact of the process diverting management attention from ongoing operations, all of which have been the cause of failed M&A activity in the private sector. There are also likely to be significant short-term costs concerned with the winding up of existing pooled products which do not have a part in the "new world" the sharing of which is likely to become contentious, as well as difficulties in bringing together what in some cases are very different legal structures. None of these issues are reasons not to consolidate simply risks to be aware of and to be managed in the process.

We would also draw attention to the risks posed by the Government's making such a clear statement of intent at this stage. The danger is that rather than see a neat three stage process of transition, collaboration, and ultimately consolidation the uncertainty about the future of certain pools created by this intent could destabilise the current arrangements.

That said, we believe that there are no technical barriers to increasing scale in the pools. Corporate activity to achieve scale within the asset management industry is commonplace albeit requires expertise and experience to achieve benefits and does generate not inconsiderable short-term costs.

2. Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

We support the principle of transferring, or having a clear path to transition, assets to pools, and we have already met the requirement set for listed assets. We believe that each funds' Investment Strategy Statement (ISS) should include a transition plan for assets to be transferred to the pools, as well as the composition and justification of any assets remaining outside the pool.

We would welcome clarity on the position of legacy illiquid assets particularly those in private markets. With fees already negotiated, and with typically no ability to adjust them post commitment, transferring these assets to the pool may simply incur new legal and tax costs. It may be more appropriate to agree that individual Partner Funds should not seek to make new illiquid investments outside their pool from a specific date, and the pools (where appropriate) support Partner Funds on the oversight of legacy illiquid assets as they run-off. This could be on a case-by-case basis – for example it is possible to transition English Real Estate assets with appropriate tax planning and achieve strong investment and business case benefits, although assets in Wales and Scotland cannot be transferred due to the absence of seeding relief provisions in relation to the devolved equivalents of Stamp Duty Land Tax, and this is an issue which we would like to see the UK Government pursue as it creates distortions in the UK investment market.

Clarity is also required on 'passive' investments, for those funds which invest in such products, although they are not and never have been a part of SYPA's asset mix, and therefore we leave it to others to comment on the detail of this point.

We also note the current guidance that up to 5% of assets can be invested outside the pool. We believe this flexibility should remain – particularly when it is supporting other relevant objectives, such as making local investments, particularly those that form part of Fund's plans to address the "levelling up" agenda. Given the Government's overall intent it would be appropriate for Fund's transition plans to set out a clear justification for assets remaining outside the Pool. Such a justification will need to reflect on the overall benefits in terms of the delivery of the investment strategy and not just on cost. For example, some investments might be retained as carbon offsets within an overall Net Zero strategy for the whole of a Fund's portfolio, or they might be local investments supporting the "levelling up" agenda, which cannot be made at a scale suitable for inclusion in a pool product. The vagueness in the consultation document around the potential scale of non-pooled assets is perhaps unhelpful in achieving the Government's intent as if there is no clear boundary within which funds should operate in this area there is the potential for this provision to be abused.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

We believe that with our 10 partners and the Border to Coast operating company we have developed a model of pooling which has successfully allowed us to meet the government's previously stated objectives for pooling. We support the approach set out in the consultation, which is reflective of the way we have sought to pool, developing a limited number of building blocks and tools, which are commercially viable and sustainable in the longer term, and which in different combinations allow Partner Funds to deliver their investment strategies. Setting out a set of core principles which any pooling arrangement has to meet should strike the balance between prescription and the understandable desire not to stifle innovation which will continue to drive progress in this area.

Any guidance needs, without being overly prescriptive to set a boundary for the acceptable level of granularity of asset allocation which has been central to the debate over "what is strategic asset allocation", which seems to be the point of contention which in some places has frustrated the delivery of the Government's original intent. Hopefully there would be consensus that "UK Small Cap Equity" is too granular while "Equity" is perhaps not granular enough. Defining the middle ground is likely to be difficult but it is important as the current vacuum in this area has created the issue which the Government now seeks to address.

While Administering Authorities are responsible and accountable for their investment strategies, any strategy must be capable of implementation, and in the world envisaged by the consultation implementation must be through the pool with extremely limited exceptions. Given this it is difficult to see how Administering Authorities can produce a strategy in isolation from the building blocks and tools provided by the pool. While there will continue to be a place for traditional investment consultants in the development of strategy this is likely to be very focussed on the asset / liability modelling which is used to consider the effectiveness of a particular strategy in achieving the required funding targets, which is a particularly technical area. A pool such as Border to Coast can play a significant role in supporting the development of strategy and its involvement in the process can assist in identifying the requirement for new tools or building blocks which might be required to implement the evolving strategies of all the Funds within a pool. There is a perception that pool entities are likely to be conflicted in discussions around strategy, but the reality is that they are no more conflicted than other advisers who are routinely involved in the process and Funds need to ensure that they have robust governance arrangements in place to manage potential conflicts, and to ensure that proper oversight and scrutiny take place.

SOUTH YORKSHIRE PENSIONS AUTHORITY

4. Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

The key to a successful system of governance is ensuring decisions are made by the right people, with the right level of knowledge, at the right time, as emphasised in the Scheme Advisory Board's Good Governance proposals.

It is important that there is local accountability for the target returns, risk appetite, and investment beliefs that underpin the investment strategy to deliver cost effective and sustainable pensions.

As outlined in the consultation, and this is something we support, the role of a Pension Committee is to review and approve the investment strategy, and to provide oversight and scrutiny on how effectively this is being executed, not to make tactical and operational decisions or try to second guess those directly running money. To be effective in this role Committees will need to have in place appropriate delegation of functions which are not central to the setting of strategy to Officers, who have sufficient experience and knowledge to support the Committee. In turn, Officers (and Committees) can be supported by the centre of investment expertise that resides in the pool that they own, which is also responsible for the implementation and management of that Fund's investment strategy.

We believe that the knowledge and understanding of Pensions Committees in exercising their responsibilities for the oversight and scrutiny of investment strategy delivered by the Pool is, in addition to advice from officers, best supported by independent advisers who can act in a role akin to Non-Executive Directors (and, who should be set clear objectives in such a role).

For Pension Committees, a key component to this is an effective training policy, which is reported against as part of clear delegation of functions between Committee and Officers. SYPA has had such a policy in place for a number of years (available here) and reports on training undertaken as part of the annual report in line with the current guidance. This policy sets out a level of mandatory initial training and the expectation that members of the Authority and Local Pension Board will undertake the Pensions Regulator's recommended level of 15-25 hours of learning and development each year. The level of knowledge and understanding reflected in Authority and Board members' scores on the National Knowledge Assessment is also publicly reported and influences the development of training plans.

Any policy is, however, only as good as its delivery and in this case the ability of members to take advantage of the learning and development opportunities provided. Membership of a Pensions Committee will not be the only committee assignment that a councillor has and for many will need to sit alongside a full-time job so balancing the time commitment can be difficult. Nonetheless it would be sensible for Administering Authorities to take a similar approach to that taken by many councils in relation to planning and licensing functions of members not being able to participate in those committees unless they have undertaken a minimum level of training. This would be reinforced by the adoption of the Scheme Advisory Board's recommendation in relation to mirroring the knowledge and understanding provisions for Local Pension Board members for Pension Committee members in regulation.

As a separate authority all members of SYPA receive allowances which reflect the level of time commitment required both for meetings of the Authority and its committees and to undertake learning and development. This is unusual and reflects SYPA's unique circumstances. There is, however, perhaps a case that members allowance schemes more generally should be adapted to take account of the different degrees of workload, and in particular learning and development, that result from membership of a pensions committee.

We believe Government proposals in relation to the interaction of pools and funds, and the training of pension committee members are part of a whole range of steps required in relation to ensuring sound governance which should be addressed as part of a holistic response to the Good Governance Project report completed by the Scheme Advisory Board and the Board's associated recommendations to the Minister to ensure changes take place within a framework focused on delivering the best outcomes for LGPS members.

SOUTH YORKSHIRE
PENSIONS AUTHORITY

5. Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Noting our introductory comments, we support the proposal to have standard reporting requirements (with clear and consistent definitions). However, it is evident from the simplest analysis of the current SF3 data that some funds are not complying with current guidance on the reporting of non-invoiced investment management costs, which therefore distorts any comparisons which might be drawn between funds. Any moves in this direction need to be accompanied by more active steps to address non-compliance and ensure consistency. Only the Department has the power to make this happen it is not something that can be outsourced to the Scheme Advisory Board which at best has the power of persuasion which has failed in the past as a means of resolving these issues.

In terms of cost comparison, we would draw attention to the need to make a distinction in reporting and official statistics between base fees and performance fees. The scale of the latter will very much depend on asset mix and while important any cost comparison needs to begin from the levels of base fee. We would also draw attention to an issue particularly affecting SYPA which is that our costs included in any comparison include £500 - £600,000 pa of irrecoverable VAT because the Authority does not benefit from the s33 status available to other administering authorities. Clearly such issues need to be understood when drawing any comparisons using this sort of data.

While we support reporting net savings, this needs greater consideration – specifically "against what?". In calculating our savings, we are comparing our current position with (often) data from 2015/16 – which is not necessarily the market pricing we see today and does not necessarily reflect the changes in asset allocation over time particularly the move into more expensive private market assets, which is supported by other proposals in this consultation. There is a danger that this information becomes dated and irrelevant. Equally, a focus on cost may also drive unintended consequences (particularly given the desire from the Government to increase investment in more expensive asset classes, such as private markets). As the pooling journey continues, it may be appropriate to use other reporting mechanisms – for example the use of benchmarking of costs against global comparators using independent market experts such as ClearGlass Analytics and CEM. Mandatory participation in such exercises across the scheme would both increase their utility and provide an opportunity to reduce the cost of participation.

We have significant concerns about the proposals to produce standard reporting on investment returns. Each individual fund has its own investment strategy and risk appetite. Even within a single pool, although two funds may superficially have similar investment strategies, they may be seeking to deliver significantly different outcomes. There is a danger that returns are taken out of context – and could lead to inappropriate short term investment decisions being made. Each Pension Committee should be measured on two basic measures:

- Does it have the right strategy, based on its liabilities and current funding level.
- Does it have the right approach to implementing this strategy?

While the consultation provides a clear view on how funds should implement their strategy (paragraphs 29-31 in the consultation), it is relatively silent on assessing whether the Committee has the right strategy, and of course there may be several potential strategies which could achieve the same objective. There is a range of existing, and emerging, frameworks on doing this and we would welcome the opportunity to progress this (possibly though the Scheme Advisory Board).

6. Do you agree with the proposals for the Scheme Annual Report?

We support clear and consistent reporting by the Scheme Advisory Board, provided the Board is sufficiently resourced to undertake the work and it is undertaken in such a way as to minimise the data collection burden on funds. However, we do accept that the current data collection by the SAB which involves the manual analysis of 86 annual reports is unsustainable given the increased reporting responsibilities the Government envisages placing on the Board both because of this consultation and the separate consultation on TCFD. Therefore, some form of simplified return which could encompass or replace SF3 (and perhaps be jointly owned by the Department and SAB) would seem to be a sensible way of reducing the burden on funds but making data available to the SAB. It may also be a means of making data available on a more timely basis given the current difficulty in gaining audit certification for many funds, although separation of the accounts of Funds from those of host councils could also result in more timely information provision.

We also note the broader issue of increased reporting for the LGPS. The research in the PLSA's "LGPS: Views from inside the scheme" found that over half (54%) of respondents feel that the legislation/regulatory requirements are too complex to execute, while two in five (43%) continue to feel legislation/ regulatory requirements hinder them from doing their job effectively.

This is not to diminish the fundamental role of transparency and reporting. This is essential to ensure accountability, and to drive best practice across the LGPS. However, simplicity is key. Indeed, we understand a recent review by SAB suggested that nearly a third of LGPS funds were not meeting their current annual report disclosure requirements, something will fundamentally have to change to bring this figure down to near zero.

Simply adding additional reporting requirements not only adds cost, but there is a significant negative impact for the intended audience of the scheme members due to the volume and complexity of information being published with our last annual report running to over 450 pages including appendices. Some of this volume could undoubtedly be reduced using hyperlinks to web versions of certain documents but the current regulations do not allow this, therefore simply changing the guidance will not address some of the core contributors to the problem with annual reports. While we understand the desire for the annual report to give users all the information, they might need in one place this is not the case for asset managers such as the pool entities which produce at least a corporate annual report and accounts (where they are a company) a stewardship report and a TCFD report. Allowing LGPS Funds licence to follow this sort of approach while meeting the basic requirements on what they should disclose might also help users of reporting find what they want more easily. We believe that the impact assessment of changes in guidance – in terms of cost, transparency, and in the ability of readers to interpret what is shared – should be taken in the context of the ongoing review of LGPS reporting requirements being undertaken by the Scheme Advisory Board.

7. Do you agree with the proposed definition of levelling up investments?

We agree with the definition outlined in the consultation. This is an issue which SYPA regards as extremely important as part of its investment strategy, not for policy reasons but because investments of this sort can deliver the returns we require from places where we would not normally look for them, which in the context of returns generally becoming more difficult to deliver is incredibly important.

That is not to say that the policy benefits are irrelevant, and we see achieving both return and positive impact as something that is supported by our scheme members and entirely in line with our overall fiduciary duty.

Through Border to Coast a new private markets strategy, 'UK Opportunities' is being developed. Set to launch in April 2024, this will provide Partner Funds with opportunities to invest in regions across the UK, including venture and growth capital, and will ultimately support the policy intent outlined in the Levelling Up white paper. We see this product as an important part of our overall Place Based Impact Strategy in conjunction with investments which are more targeted on South Yorkshire.

Under current guidance, individual funds have the flexibility to invest up to 5% outside the pool. The local and specific nature of these investments mean they may be of a small scale and unable to be effectively delivered through the pool. As such, this exemption allowing the making of these investments outside the pool should be maintained (although this should still be subject to regulatory permissions, resourcing, recognising the importance of managing conflicts of interest that may still arise, and the role pools can play in advising in relation to non-pooled investments).

8. Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Collaboration has been – and should continue to be – a hallmark of strength in the LGPS.

If a pool is unable to effectively develop and manage an investment proposition, there may be merit in sourcing this capability through another LGPS pool. However, it needs to be recognised that there are several implications that need to be fully considered and risks mitigated. These include issues such as:

- Proposition development – currently Border to Coast's propositions are designed with, and for, 11 Partner Funds who are both shareholders and customers, and who meet the, not inconsiderable, costs of proposition development directly. Care will be required should an external pool customer(s) wish to evolve existing propositions. The existing governance structures and processes may need to be reviewed to overcome this challenge.

- Niche strategies – certain investments may have capacity issues. For example, despite significant demand, the initial Border to Coast Climate Opportunities strategy was capped at £1.35bn. Care will be required in balancing the needs of shareholder customers vs external pool customers for capacity constrained investments.

- Cost model – as shareholders, existing customers principally manage risk through Border to Coast's regulatory capital. As non-shareholders, external pool customers would be subject to different pricing.

- Managing demand – in owning and building Border to Coast, there has been a structured approach to its growth –building capacity and capability to reflect Partner Funds long term needs. This is likely to be absent with non-shareholder customers and, in accepting external customers, there is a risk of managing in- and out-flows, potentially destabilising the ability to plan the required capacity in various functions of the business. There are also similar considerations regarding management of liquidity in certain propositions.

- Management of additional customers will require careful consideration, particularly noting the potential additional layer of due diligence costs that will be required as a regulated asset manager investing into another regulated asset manager's vehicle.

Nonetheless, if these issues are overcome, it would be easier to manage this on a pool-to-pool basis, than an individual fund-to pool basis.

9. Do you agree with the proposed requirements for the levelling up plan to be published by funds?

The objective of individual Funds is to generate the appropriate risk adjusted returns to ensure they can operate the LGPS in an affordable and sustainable manner. Where ancillary objectives can be co-delivered without impacting these returns or increasing risk, such as those outlined in the Levelling Up White Paper, this is to be welcomed. Indeed, the 11 Border to Coast Partner Funds have within them seven of the ten most deprived areas in the Index of Multiple Deprivation (as reported in the 2019 English Indices of Deprivation). Levelling Up, effectively delivered, has the potential to create growth; including creation of jobs, drive productivity, improve people's quality of life and deliver better health and wellbeing outcomes. Nonetheless, LGPS assets are invested to deliver appropriate risk adjusted returns and should not be used to implement any Central Government policy objective – no matter how laudable it may be. We welcome the recognition in the consultation that each Fund is responsible for setting their investment strategy, designed to deliver the appropriate risk adjusted returns they require.

Any investment strategy and associated reporting on Levelling Up needs to be through the principal asset classes (e.g., Real Estate, Private Equity, Infrastructure, Private Credit, etc). This ensures that the risk adjusted returns for "levelling up" investments are considered on the same basis as any other investment in that asset class. "Levelling Up", or as we prefer to call it Place Based Impact can be reported on as a memorandum item achieving the Government's aim of transparency but maintaining the focus on delivering the returns required to pay pensions as the primary objective.

SYPA has already taken the decision to allocate 5% of the Fund to place based impact investments (see the policy document here) and this decision is reflected in our latest Investment Strategy Statement (here). While we understand the Government's desire to maximise investment through the pools and we will commit to the Border to Coast UK Opportunities Fund as part of our Place Based Impact strategy we do believe that in order to achieve the impacts that we want to see many of the investments in this area will need to be made outside of formal pool structures, although we accept that the pool may, subject to regulatory permissions, be able to provide advice and support in making such investments.

10. Do you agree with the proposed reporting requirements on levelling up investments?

We would refer to our previous comments about annual reports and the need to ensure consistency and compliance in reporting. As this is a new requirement there is an opportunity to start with a clean piece of paper and adopt existing industry wide best practice standards such as the Place Based Impact Reporting Framework. We have already adopted this and our latest reporting, which will be included in our 2022/23 Annual Report is attached as an appendix for information as an illustration of what is already being delivered in this space.

In supporting the proposed requirement, we would draw attention to the fact that this reporting will require the assistance of specialist providers to analyse information from multiple fund managers. The number of providers in this marketplace is limited and they tend to be smaller businesses so there may be challenges in scaling up this activity across the whole of the LGPS in a relatively short timescale.

11. Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

Administering Authorities remain responsible for their investment strategies. As open DB pension schemes, it is essential that they develop appropriate diverse investment strategies designed to balance risk and return to ensure the LGPS remains affordable with stable employer contributions. As LGPS becomes an increasingly mature scheme liquidity, cashflow, and regular income, are becoming much more important aspects of investment strategy and a balance needs to be struck between all these factors in determining asset allocation.

As part of this approach, private markets can play an important role. While SYPA already had a mature private markets programme the creation of Border to Coast has moved this to the next level and significantly enhanced smaller Partner Funds' ability to access this asset class – leading to a £12bn programme across the pool to date.

We note the reference to private equity. It is our belief that this is a relatively narrow definition. Indeed, early-stage growth, especially that focused on tech, is relatively high risk. For investors who have not made meaningful or any previous commitments to private capital more broadly, this is a challenging entry point and risks disappointing or volatile returns/losses which could discourage future investment in private markets. Investments of this sort also tend not to generate the regular income that is increasingly necessary for funds that are cashflow negative.

A broader definition, covering 'growth capital' allows investors to build private market risk appetites which suits their own circumstances, rather than pushing everyone to a more narrowly defined and therefore potentially crowded part of the market with more volatile returns.

Using this broader definition, we believe we are already investing around 10% of the Fund in assets which support growth. For example, Border to Coast's Climate Opportunities Fund is investing in businesses which are seeking to capture the opportunities presented by the transition to a No/Low Carbon economy.

The most effective way to encourage any investment in the UK is the provision of a stable investing environment through policy certainty. If the LGPS and private capital is being asked to make large, long-term, capital investments, the Government needs to offer corresponding long-term guarantees and/or the necessary policy certainty to protect these potential investors. Examples include policy certainty on renewable energy, transport and other climate transition considerations; improvements to the planning regime to accelerate development opportunities and to enable clearer partnership opportunities with Local Authorities; and the development of structures (perhaps with the support of BBB or UKIB) that enable risk sharing or return visibility.

While there is understandably a continued focus on costs, we recognise that private markets are a more complex and expensive asset class. In developing Border to Coast, we have built the capabilities and capacity to access these markets in an effective and efficient manner; and Border to Coast's latest annual report[4] highlights a c.24% reduction in base fees in this key asset class.

[4] https://www.bordertocoast.org.uk/wp-content/uploads/2022/07/Annual-Report-and-Accounts-2021-22.pdf

12. Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

There is a range of potential partners that can support the LGPS pools to deliver growth capital in the UK – the British Business Bank (BBB) and the UK Infrastructure Bank (UKIB) being two examples.

Given their state ownership and strategic focus to 'crowd in' other investors, these institutions may be well placed to support the LGPS pools source and commit to ventures that meet their normal investment criteria.

We do note that one of the key objectives of LGPS pooling was to reduce the fee burden paid by pension funds, and in a private market context, reduce the reliance on fund of fund structures which introduce an additional layer of fees and carry (profit share) expense. As such, any vehicle should be offered on a cost only basis if the intention is to encourage greater participation in this part of the market. Additional fee load will detract potential investors who are sensitive to fees. BBB will be investing balance sheet capital into all investments so a successful investment policy will deliver profitability for them without a reliance on fee income.

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

This approach has already been taken by many funds across LGPS on a voluntary basis and there is no logical reason to object to it.

Question 14: Do you agree with the proposed amendment to the definition of investments?

Yes.

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

No

For further information in relation to any of our responses please contact

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Decisions taken Between Meetings of the Authority**	**Status**	For Publication
Report to	Authority	**Date**	07 September 2023
Report of	Head of Governance		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Jo Stone Head of Governance	**Phone**	01226 666418
E Mail	jstone@sypa.org.uk		

1 Purpose of the Report

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

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2 Recommendations

2.1 Members are recommended to:

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

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3 Link to Corporate Objectives

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

Effective and Transparent Governance

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

4 Implications for the Corporate Risk Register

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

5 Background and Options

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

5.2 One decision has been required since the previous meeting of the Authority.

5.3 Border to Coast circulated several shareholder resolutions for approval at the Annual Meeting of shareholders. The Annual AGM in July requested formal confirmation of appointing SYPA as a shareholder of Border to Coast Pensions Partnership Limited. SYPA were therefore requested to vote on the following resolutions below:

i. Receive the financial statements of the Company for the year ended 31 March 2023.
ii. Re-appoint the external auditors, KPMG LLP, to audit the financial statements for the year to 31 March 2024 and authorise the directors to agree the external auditors' fee.
iii. Note the Directors' Outside Business Interests Policy
iv. Receive the Register of Directors' Interests.
v. Approve the reappointment of Andrew November as a Non-Executive Director.
vi. Approve a four-year extension of the term of Kate Guthrie's contract as a non-executive director until 30 September 2027.
vii. Approve a one-year extension of the term of John Holtby's contract as non-executive director until 30 September 2024.
viii. Approve the Board's appointment of Richard Hawkins as a new non-executive director of the Company, subject to necessary checks as required under the Financial Conduct Authority's Senior Managers and Certification Regime

5.4 The first four resolutions are routine course of business and are therefore supported Consultation was undertaken with the Chair and the Director who are supportive of the remaining resolutions. The decision was therefore taken to approve all of the resolutions.

6 Implications

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

Financial	The proposals approved reflect the assumptions made in setting the company's budget.
Human Resources	None
ICT	None
Legal	None
Procurement	None

Jo Stone, Head of Governance

Monitoring Officer

Background Papers	
Document	**Place of Inspection**
Published Decision Records	

SOUTH YORKSHIRE PENSIONS AUTHORITY

Agenda Item

Subject	**Annual Review of the Local Pension Board Constitution**	**Status**	For Publication
Report to	Authority	**Date**	07/09/2023
Report of	Head of Governance		
Equality Impact Assessment	Not Required	Attached	Na
Contact Officer	Jo Stone Head of Governance	**Phone**	01226 666418
E Mail	jstone@sypa.org.uk		

1 Purpose of the Report

1.1 To present for Members' consideration and approval a revised constitution for the Local Pension Board following the regular annual review.

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2 Recommendations

2.1 Members are recommended to:

a. **Approve the adoption of the revised Constitution of the Local Pension Board attached at Appendix A.**

b. **Subject to the conclusion of consultation with the Constituent Authorities to authorise the Head of Governance to amend the Local Pension Board Constitution to increase the term of office of Councillor members to 3 years.**

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3 Link to Corporate Objectives

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

Effective and Transparent Governance

To uphold effective governance always showing prudence and propriety.

3.2 The Local Pension Board's Constitution is designed to ensure that robust arrangements in line with best practice are in place to uphold effective governance.

4 Implications for the Corporate Risk Register

4.1 The contents of this report do not link to a specific risk in the corporate risk register; instead, the proposals are part of the overall framework of governance and risk management at the Authority.

5 Background and Options

The role and responsibilities of the Local Pension Board are set out in its Constitution. This is reviewed annually in line with best practice.

5.1 Following the most recent review the Board is recommending the following changes to the Authority for approval.

Terms of Office

5.2 In order to provide continuity in the important roles of Chair and Vice Chair while also ensuring equity in representation the roles of Chair and Vice Chair appointments will alternate between employer and employee representatives every 2 years. This should also allow some succession planning.

5.3 In relation to the term of office of Councillor members of the Board there has over the years been considerable discussion with the current position agreed with the Constituent Authorities being a term of 2 years. The Board recommends that this be extended to three years as for all other members of the Board. A change of this sort requires consultation with the Constituent Authorities and officers have commenced this process and will provide feedback at the meeting. In the meantime, a recommendation is included at the head of this report which will allow such a change to be made if agreements is reached.

6 Implications

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

Financial	None
Human Resources	None
ICT	None
Legal	None
Procurement	None

Jo Stone

Head of Governance

Background Papers	
Document	**Place of Inspection**
None	

SOUTH YORKSHIRE PENSIONS AUTHORITY

Constitution of the South Yorkshire Local Pension Board

July 2023

Date Approved:	2015
Date Revised:	July 2023
Date of Next Review	July 2025
Responsible Officer:	Monitoring Officer

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1. Name

1.1 The name of the Board is "the South Yorkshire Pensions Authority Local Pension Board" and is established by South Yorkshire Pensions Authority ("the Authority") as the administering authority for the South Yorkshire Pension Fund under the provisions of Section 5 of the Public Sector Pensions Act 2013 ("the Act") and the Local Government Pension Scheme (Amendment)(Governance) Regulations 2015.

2. Purpose and Role

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

2.1.1 Secure the effective and efficient governance and administration of the LGPS for the South Yorkshire Pension Fund

2.1.2 Provide the Scheme Manager with such information as it requires to ensure that any member of the Local Pension Board or person to be appointed to the Local Pension Board does not have a conflict of interest.

2.1.3 Ensure the South Yorkshire Pension Fund effectively complies with the Code of Practice on the Governance and Administration of Public Service Pensions Schemes issued by the Pensions Regulator and is effectively managed and administered in compliance with the Code.

2.2 The Board will carry out its role in line with the specific terms of reference set out in Appendix A to this Constitution.

3. Powers of the Local Pension Board

3.1 Where any breach of legislation or duties is committed or is alleged to have been committed by the Pensions Authority or its Boards the Local Pension Board shall:

3.1.1 Within one month of the possible breach, meet with the Authority Chair (supported by the Head of Paid Service and Section 73 officer) to discuss the breach.

3.1.2 Ask the Authority Chair to explain the actions taken and provide evidence of the legitimacy of the actions taken.

3.1.3 Consider the matter on the facts available and evidence provided by the Chair and shall:

3.1.3.1 Refer it back to the Authority to consider afresh and correct any areas of concern/breaches of duty; or

3.1.3.2 Determine that no breach of duty has taken place.

3.2 If under clause 3.1 above it is decided that a breach has occurred, the Local Pension Board shall (as required by the Code of Practice and the Pensions Act 2004):

3.2.1 Report the breach to the Scheme Manager who should take prompt and effective action to investigate and correct the breach and its causes and, where appropriate, notify any affected members: or

3.2.2 Where prompt and effective action to remedy the breach has not been taken and/or where scheme members have not been informed when they should have been, report the breach as a breach of material significance to the Pensions Regulator.

3.3 As per Regulation 106(6) of the Local Government Pension Scheme (Governance) Regulations 2014 and subject to the terms in this Constitution, the Local Pension Board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

4. Scheme Manager Consents

4.1 The Local Pension Board shall not:

4.1.1 Consider or become involved in any internal dispute resolution appeals or the process itself.

4.1.2 Enter into contracts on behalf of the Administering Authority.

4.1.3 Use the Local Pension Board to act on behalf of a particular constituency or Pension Fund member in general or in relation to a specific complaint at any time.

4.1.4 Compromise the Pensions Authority's ability to comply with its fiduciary duty to the Pension Fund and its members.

4.2 The Local Pension Board must seek written consent from the Scheme Manager before it:

4.2.1 instructs the Pension Fund actuary to provide a report of any kind.

4.2.2 Requests any external advisor to attend a meeting of the Local Pension Board which shall require any remuneration of any level.

4.2.3 incurs a cost to the Pension Fund.

4.2.4 Can amend this constitution.

5. Membership

5.1 In accordance with Regulation 107 of the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 the South Yorkshire Local Pension Board will be made up of an equal number of employer and member representatives which is no less than four in total. The South Yorkshire LPB will comprise of 10 members in total.

5.1.1 Employer representatives will consist of:

- 2 Local Authority Councillors (rotated every 2 years) in line with a pattern agreed with the Constituent Authorities
- 3 other employer representatives selected from applications selected so as to represent as far as possible the range of different types of employer within the Fund.

5.1.2 Employee representatives will consist of:

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

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

5.1.4 Council members will be appointed by the relevant District Council at their annual meeting.

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

5.1.6 The roles of Chair and Vice Chair Appointment will alternate between employer and employee representatives every 2 years.

5.2 No officer of South Yorkshire Pensions Authority or any elected Member appointed by a constituent Authority to serve on the South Yorkshire Pensions Authority may be a Member of the Local Pension Board.

5.3 Members of the Local Pension Board will be voting members; each member shall have one vote. It is expected that the Board will, as far as possible, reach a consensus; the Chair of the Board will have the final deciding vote which will be reported to the Administering Authority.

5.4 Regulation 107 requires that the administering authority, South Yorkshire Pensions Authority, ensures that all employer or member representatives sitting on the Board have relevant experience and capacity to represent the employers or members of the Fund.

5.5 Substitute members will not be permitted.

5.6 Each Local Pension Board member shall endeavour to attend all LPB meetings during the year. Failure to attend any meetings within a 6-month period will result in removal from the Board unless a meeting of the Board specifically agrees to a waiver of this rule because of specific circumstances.

6. Chair

6.1 At the first meeting held in each municipal year the board shall:

6.2 elect a Chair from amongst its members.

6.3 elect a Vice-Chair from amongst its members.

6.4 When the Chair of the Board is from the employer representatives, then the Vice-Chair will be elected from the member representatives, and vice versa.

7. Leaving the Board

7.1 A member of the Board shall cease to hold office if:

7.1.1 He or she notifies the Board of a wish to resign.

7.1.2 He or she is an elected councillor and is appointed to the Pensions Authority.

7.1.3 He or she ceases to be employed by the body on behalf of whom he/she acts as a representative, including but not limited to Trade Unions or Scheme employers.

7.1.4 A member fails to attend meetings or otherwise comply with the requirements of being a Board member, for example fails to attend the necessary knowledge and understanding training.

7.1.5 A member dies or becomes incapable of acting.

7.1.6 There exists a conflict of interests in relation to a Board member which cannot be managed within the internal procedures of South Yorkshire Pensions Authority.

8. Standards and Interests

8.1 All members of the Board will adhere to the Seven Principles of Public Life. These are:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

8.2 In addition, Local Authority Councillors serving on the Board are subject to their Council's Code of Conduct for Members. Members of the Board who are not Councillors but are members of a professional body or represent a Trade Union are subject to any Code of Conduct applicable to that body or Trade Union.

8.3 All members of the Board shall complete a declaration of their interest and deposit it with South Yorkshire Pensions Authority's Monitoring Officer as required by Regulation 108 (4) of the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.

8.4 The Monitoring Officer will make arrangements for the publication of the register of interests of members of the Local Pension Board on the website of the South Yorkshire Pensions Authority.

9. Conflicts of Interests

9.1 Further to the Regulations, a member shall not be appointed who has an existing conflict of interest.

9.2 For the avoidance of doubt, being a member of the Pension Scheme is not a conflict of interest.

9.3 Where a member becomes conflicted during their appointment, they shall inform the Scheme Manager without delay and their tenure shall end with immediate effect.

9.4 Where a member has been removed from the Board under this clause 9, they will be entitled to be reappointed once the conflict has been resolved.

9.5 Such reappointment shall be made to the Board only where written approval from the Scheme Manager (advised by the Monitoring Officer) has been provided.

9.6 The Board shall maintain a policy in relation to conflicts of interest which will form part of this Constitution and to which members of the Board must have regard.

10. Meetings and Procedures of the Board

10.1 The Board shall hold a minimum of four meetings in any municipal year. Additional meetings may be called at any time by the Chair.

10.2 For the avoidance of doubt "meeting" in this context includes meetings held entirely virtually or allowing the participation of individual members virtually.

10.3 In the absence of the Chair at a meeting of the Board, the Vice-Chair will preside over that meeting. If both the Chair and Vice-Chair are absent, then the Board will appoint one of its members to preside at that meeting.

10.5 The quorum for a meeting of the Board shall be at least 2 employer and 2 employee representatives.

10.6 Board meetings shall be held in public. The public may be excluded from the meeting when matters are considered that, in the opinion of the Scheme Manager, contain information covered by exempt/confidential information procedures under Schedule12A of the Local Government Act 1972 (as amended) or represent data covered by the Data Protection Act 1998.

10.7 All agendas and papers for Board meetings will be made publicly available on South Yorkshire Pensions Authority's website unless, in the opinion of the Scheme Manager, they are covered by exempt/confidential information procedures under Schedule 12A of the Local Government Act 1972 (as amended) or represent data covered by the Data Protection Act 1998.

10.8 Minutes of proceedings at meetings of the Board shall be kept in accordance with statutory requirements. Following the approval of the minutes by the Chair of the Board, they shall be forwarded to all Pension Board members.

10.9 Minutes of meetings of the Board shall be published on South Yorkshire Pensions Authority's website.

11. Knowledge, Skills and Training

11.1 To be appointed as a member of the Board a person must have knowledge and understanding of and be fully familiar with:

- 11.1.1 The rules of the scheme.
- 11.1.2 Any document recording policy about the administration of the Scheme which is for the first time being adopted in relation to the Scheme.
- 11.1.3 The law relating to pensions; and
- 11.1.4 Any other matters which are prescribed in regulations.

11.2 Pension Board members will undertake a personal training needs analysis and regularly review their skills, competencies, and knowledge to identify gaps or weaknesses.

11.3 Pension Board members will comply with the Scheme Manager's training policies as set out in the Learning and Development Strategy and attend all training provided by the Scheme Manager.

11.4 A written record of relevant training and development will be maintained for each member of the Board and details of training undertaken by each member of the Board will be published in the Board's Annual Report.

11.5 Training where needed, that is provided by the Scheme Manager, will be charged to the Pension Fund.

11.6 Subject to the Regulations or any advice or requirement issued by the Pensions Regulator, the Board must agree and implement a programme of training in respect of all members of the Board to ensure that they are adequately trained to perform their respective duties.

12. Accountability

12.1 The Local Pension Board will be collectively and individually accountable to the Scheme Manager and the Pensions Regulator.

13. Expenses and Funding

13.1 Members of the board will receive an allowance in relation to their membership under the Administering Authority's scheme of member allowances and will be reimbursed for reasonable subsistence and travel expenses in accordance with the relevant policies of the Administering Authority.

13.2 13.2

13.3 The Board will be provided with adequate resources to undertake its role; these will include as a minimum:

- Accommodation and administrative support to conduct its meetings.
- Training; and
- Legal, technical, and other professional advice.

13.5 The expenses of the Local Pension Board shall be regarded as part of the costs of the administration of the Fund.

14. Annual Report

14.1 At the end of each Municipal Year the Chair of the Board shall compile an annual report on the activities of the Board, including records of attendance and training, for submission to the Authority and for inclusion in the Authority's Annual Report and Accounts.

15. Variations

15.1 Any variation to this Constitution, considered necessary by the Board, shall be reported to the Scheme Manager for consideration and written consent.

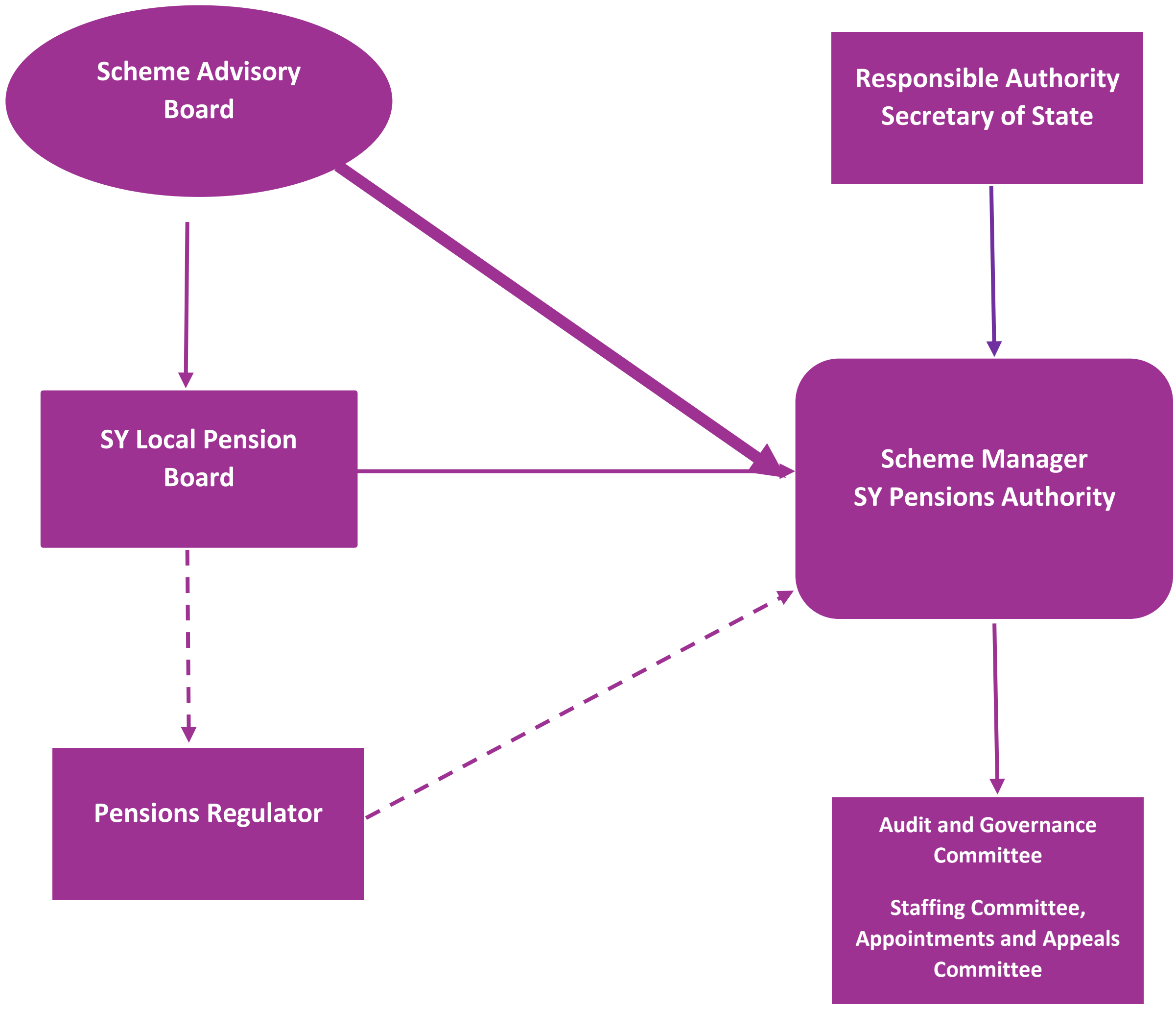
15.2 No variation made by the Board will be valid without the express consent of the Scheme Manager.

16. Data Protection

16.1 The Local Pensions Board will adhere to the Data Protection Policies of the Administering Authority.

17. Governance Structure

17.1 The diagram below shows how the South Yorkshire Local Pension Board fits into the overall governance structure flowing from the Public Sector Pensions Act 2013 and the Local Government Pension Scheme Regulations 2013 (as amended).



Constitution of the South Yorkshire Local Pension Board

Appendix A – Terms of Reference

July 2021

Appendix A Terms of Reference

1. Compliance and Control

1.1 To review administrative governance and risk management processes and procedures to ensure they remain compliant with the Regulations and the Regulator's code of practice.

1.2 To assist with the development and review the implementation of the Authority's various policy documents and procedures.

1.3 To review the actions taken in response from internal and external review agencies (such as Internal and External Audit and the Pensions Ombudsman).

2. Administration

2.1 To monitor and review the performance of Scheme administration from the scheme members' and employers' perspective including making any recommendations for changes to the Pensions Administration Strategy.

2.2 To assess the quality of service provided by the pension administration service and identify any areas for improvement.

3. Communications

3.1 To monitor and make recommendations as appropriate on the means and content of communication with scheme members and employers

3.2 To produce an Annual Report upon the Board's activities to be submitted to the Pensions Authority.

4. Budgets

4.1 To agree an annual budget for the operation of the Local Pension Board and submit it to the Authority for approval.

5. Reporting

5.1 To make such recommendations to the Authority with regard to the matters set out in these terms of reference as it sees fit.

SOUTH YORKSHIRE
PENSIONS AUTHORITY

Constitution of the South Yorkshire Local Pension Board

Appendix B – Conflicts of Interest

July 2023

Appendix B – Local Pension Board Conflicts of Interest Policy

1. Introduction

There is a requirement for Local Pension Board (LPB) members not to have a conflict of interest. However, it is important to note that the issue of conflicts of interest must be considered in the light of the LPB's role in assisting the Scheme Manager (South Yorkshire Pensions Authority) in securing compliance with the Local Government Pension Scheme (LGPS) regulations.

The LPB does not make decisions in relation to the Scheme and, therefore, it is not anticipated that significant conflicts will arise. Nevertheless, this Policy has been drafted to assist in the effective identification, monitoring, and management of conflicts of interest.

This Policy sets out to meet the requirements that specifically apply by virtue of the Public Service Pensions Act 2013 and the standards of conduct and practice as set out in the Pensions Regulator's Code of Practice.

2. Identifying Conflicts

LPB Members

For the purposes of a member of the LPB, a conflict of interest is defined in section 5(5) of the 2013 Act as a "financial or other interest likely to prejudice the way in which someone carries out their role as a member of a pension board". It further specifies that a conflict does not include a financial or other interest arising merely by virtue of that person being a member of a relevant pension scheme. Therefore, a conflict of interest may arise when a member the LPB must fulfil their legal duty to assist the Scheme Manager and, at the same time, they have.

- a separate personal interest (financial or otherwise); or
- another responsibility in relation to that matter, giving rise to a possible conflict with their first responsibility as a member of the LPB.

The Scheme Manager must also satisfy itself that those appointed to the LPB do not have an actual conflict of interest prior to appointment and "from time to time". This will be achieved by regular monitoring and review of the declarations of interest register.

There is a corresponding duty on any person who is proposed to be appointed, or an appointed member of the LPB, to provide the Scheme Manager with such information as it may require to be satisfied that there are no conflicts of interest. LPB members will also have the responsibility to anticipate potential conflicts of interest in relation to plans for future LPB activity.

Some examples of how a conflict of interest may arise specifically in relation to an LPB member include.

a) a finance officer appointed as a member of the LPB may, from time to time, be required to take or scrutinise a decision which may be, or appear to be, in opposition to another interest or responsibility. For example, they may be required as an LPB member to take or scrutinise a decision which involves the use of departmental resources to improve scheme administration, whilst at the same time being tasked, by virtue of their employment, with reducing departmental spending.

b) an LPB member who works closely with the Scheme Manager's internal audit function may be required, as part of their work to audit the administration of the Pension Scheme. For example, the employee may become aware of confidential breaches of law which have not yet been brought to the attention of the LPB.

c) an employer representative (elected Member) who also works in the private sector, may also have a conflict of interest as a decision-maker in their own workplace. For example, they may work for a company to which the Scheme Manager has outsourced its pension administration services and the Board are reviewing the standards provided by it.

LPB Advisors
Conflicts of interest may also arise in respect of Advisors to the LPB.

For example: an Advisor may have a conflict of interest if he or she (or the same company) is also advising the Scheme Manager. The risk to the LPB is that the Advisor does not provide, or is not seen to provide, independent advice.

Where there is likely to be a conflict of interest in giving advice, the LPB should consider carefully whether it is appropriate to appoint the Advisor in the first place. It may also be necessary to consider carefully whether they should take steps to remove the Advisor who has already been appointed.

3. **Monitoring and Managing Potential Conflicts**
For the Scheme Manager to fulfil its obligations to ensure the LPB members do not have a conflict of interest, the LPB must include an item on conflicts of interest at each meeting and also in its Annual Report.

The LPB is required to maintain a written register of dual interests and responsibilities which have the potential to become conflicts of interest, which may adversely affect members' or advisors' suitability for the role. Each member (as well as any attendees participating in the meeting) will be expected to declare, on appointment and at each meeting, any matter which may lead to conflicts of interest, such a conflict could be in relation to a general subject area or to a specific agenda item of an LPB meeting.

The Chair of the LPB must be satisfied that the LPB is acting within.

- the conflicts of interest requirements of the Public Service Pensions Act 2013 and the pension scheme regulations, and
- in the spirit of any national guidance or code of practice in relation to conflicts of interest for LPB members.

Each LPB member, or a person proposed to be appointed to the LPB (as well as any attendees participating in the meeting) must provide the Chair of the LPB with such information as he or she reasonably requires for the purposes of demonstrating that there is no conflict of interest.

LPB members are required to have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest and should know how potential conflicts should be managed.

The LPB is required to evaluate the nature of any dual interests and responsibilities, assess the impact on operations and governance were a conflict of interest to materialise and seek to prevent a potential conflict of interest becoming detrimental to the conduct or decisions of the LPB. The LPB may consider seeking independent legal advice from the Monitoring Officer, or external advisors where necessary, on how to deal with these issues, if appropriate.

Individual members of the LPB must know how to identify when they have a conflict of interest which needs to be declared and which may also restrict their ability to participate in meetings or decision-making. They also need to appreciate that they have a legal duty under the Regulations to provide information to the Scheme Manager in respect of conflicts of interest.

The Member will need to consider how any conflict can best be managed to comply with the statutory requirements. Options may include.

a) the member withdraws from the discussion and any decision-making process on the relevant item(s); or
b) the member resigns from the LPB if the conflict is so fundamental that it cannot be managed in any other way.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Policy Statement on Representation**	**Status**	For Publication
Report to	Authority	**Date**	07 September 2023
Report of	Head of Governance		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Jo Stone Head of Governance	**Phone**	01226 666418
E Mail	jstone@sypa.org.uk		

1 Purpose of the Report

1.1 To present the Policy Statement on Representation for approval.

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2 Recommendations

2.1 Members are recommended to:

a. To approve the Policy Statement on Representation.

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3 Link to Corporate Objectives

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

Effective and Transparent Governance

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

4 Implications for the Corporate Risk Register

4.1 This does not relate to a specific risk but is part of our overall work to ensure regulatory compliance.

5 Background and Options

5.1 The Policy Statement attached at Appendix A sets out the Authority's position on the representation of the different employer and scheme member interests within its governance arrangements. The approval of a statement of this sort is an expectation of the work carried out for the Scheme Advisory Board's Good Governance Review.

5.2 The policy statement reflects current practice and therefore no further consultation was necessary. Members are recommended to approved the policy statement.

6 Implications

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

Financial	None
Human Resources	None
ICT	None
Legal	None
Procurement	None

Jo Stone

Head of Governance

Background Papers	
Document	**Place of Inspection**
-	

SOUTH YORKSHIRE
PENSIONS AUTHORITY

Policy Statement on Representation

This Policy Statement sets out the Authority's position on the representation of the different employer and scheme member interests within its governance arrangements.

Definition of Interest Groups

In broad terms, the interest groups who might wish to have some input to or influence within the Authority's governance arrangements can be defined as:

Scheme Members – While scheme members can be further broken down between active, deferred and pensioner members, they broadly share the same interests in terms of the quality of the service delivered to them and the ability of the Pension Fund to meet its obligations to them.

Scheme Employers – Again there are a number of different types of employers (e.g., Councils and Academies) but in general terms they share an interest in the maintenance of stable and affordable contributions.

Representation on the Pensions Authority

The voting membership of the Pensions Authority is set out in the Local Government Reorganisation (Pensions etc.) (South Yorkshire) Order 1987, under which the Authority was created. This specifies the total voting membership of the Authority as 12: made up of the following number of members appointed by each of the District Councils in the following ratio. The appointments made by the District Councils must, in line with the provisions of the Local Government Acts, in aggregate reflect the political balance both within the individual councils and across the County.

District	Number
Barnsley Metropolitan Borough Council	2
City of Doncaster Council	3
Rotherham Metropolitan Borough Council	2
Sheffield City Council	5
Total	**12**

Appointments of Councillors to any Committees established by the Authority must also reflect the relevant political balance and the Authority has chosen to also apply this provision to any ad-hoc working groups.

The Authority has recognised that there are interests beyond those of the four constituent councils that it is important are heard within its debates, in particular those of scheme members, whose interests may differ from those of employers. To this end it has invited the regional secretaries of the three recognised Trades Unions within the National Joint Council for Local Government Services to each appoint a Non-Voting Member to be co-opted to the Authority. While it is accepted that:

a. Not all active and deferred scheme members are members of a Trade Union, and
b. In general pensioners will not be members of a Trade Union

It is felt that this approach to the representation of the Scheme Member voice within the Authority's debates provides representatives who have access to a network of support and training within the Trade Union in particular related to the investment issues that form a prominent part of the Authority's agenda.

The Authority is not able under the terms of the legislation which created it to grant voting rights to any co-opted members.

While the Authority accepts that employers other than the four councils may have differing views which should be heard in the decision-making process it has determined that in relation to the Authority no additional employer voices should be co-opted on to the Authority, because:

a. Given the weight of the Authority's agenda towards investment matters the interests of all employers in relation to the achievement of consistently strong returns so as to achieve stable and affordable contributions are likely to be aligned.
b. Given the large number and diversity of employers within the Fund it would not be possible to achieve effective representation of each interest group (e.g., academies) without the total membership of the Authority becoming too large and unwieldy.
c. Where major policy decisions are required such as changes to the Funding Strategy Statement the Authority is required by the LGPS regulations to consult employers and therefore all employers are able to express their views when such major decisions are being made.

While the Authority cannot determine who is appointed to it, it does seek to encourage the appointing bodies to ensure diversity in their appointments in the same way as it seeks to ensure diversity on the boards of companies in which it invests.

Representation on the Local Pension Board

The Local Pension Board fulfils a fundamentally different role to the Authority acting both as scrutiny body and a form of regulator responsible for assessing the effectiveness of the Authority in its role as Administering Authority. The Board has a particular focus on the quality of service delivery and on compliance with various forms of standards.

The Public Sector Pensions Act 2013 and subsequent LGPS regulations require that a Local Pension Board be comprised of equal numbers of scheme member and employer representatives, with the possible addition of an independent Chair.

The South Yorkshire Local Pension Board has determined not to have an independent Chair and has determined that a total membership of 10 (5 scheme members and 5 employers) provides both a manageable body to fulfil its role and sufficient scale of membership to accommodate differing interests within each category of members. The LPB does have an Independent Adviser to provide expertise and knowledge to its members.

All members of the Local Pension Board have full voting rights.

Given the particular focus of the Board's work, the Authority has determined that it is appropriate that as diverse a range of types of employer and scheme member are represented as possible. However, it is equally true that members of the Board are volunteers and it is therefore difficult to ensure that the membership of the Board is absolutely representative either of employers or scheme members.

Two employer members and three scheme member representatives are appointed in a different way to the remaining members:

- Two employer representatives are elected councillors appointed by the District Councils on a rotational basis between the Councils.
- Three scheme member representatives are appointed by the regional secretaries of the three recognised Trades Unions within the National Joint Council for Local Government Services.

The Authority encourages those making these appointments to consider the same criteria for appointment as those outlined for other members below.

The remaining members (3 employers and 2 scheme members) are appointed following an application process. The criteria for appointment are:

- Possession of relevant knowledge and understanding in line with the relevant regulations or the capacity to acquire it.
- Contribution to the overall diversity of the membership of the Board whether in terms of gender or ethnicity or the particular type of employer or scheme member from which they are drawn.

Review

This policy statement will be reviewed at a three yearly interval with the next review due in 2026.

Initial Approval: September 2023

To be reviewed every three years.

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Agenda Item

Subject	Border to Coast Funding Model	Status	For Publication
Report to	Authority	**Date**	7th September 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 changes to the legal agreements concerned with the operation of Border to Coast to accommodate a change in the company's funding model.

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2 Recommendations

2.1 Members are recommended to:

a. **Support the proposed changes to the funding model for the Border to Coast operating company.**

b. **Authorise the Head of Governance in consultation with the Director and subject to the receipt of appropriate legal advice commissioned by the 11 Partner Funds to execute the relevant legal documents on behalf of the Authority.**

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3 Link to Corporate Objectives

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

Effective and Transparent Governance

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

Border to Coast is central to the delivery of all the Authority's investment related corporate objectives, and it is important that changes to the relationship between the Authority and the company are considered in a transparent way.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report do not specifically address any risks identified in the Corporate Risk Register.

5 Background and Options

5.1 In its set-up phase the Border to Coast operating company utilised a form of subscription model to fund its operations. This meant that all partners contributed to all costs, incentivising take up of pooled products to offset cost, and the operating company had financial certainty in the early stages of its existence. It was always planned to change this funding model to a more conventional one based largely on charges related to the scale of assets managed on behalf of individual partner funds (AUM) once the set-up phase was concluded. Following consultations with the Senior Officer Group it is intended to make this change from 1st April 2024.

5.2 Work has been going on over the last 12 months to identify how an AUM charging system will operate and the implications for the Company and Partner Funds. This has now been completed and the new model will comprise a relatively small fixed Governance charge met equally by each Partner at the beginning of the year with all other costs invoiced either directly or via the relevant investment structure. Development costs of new products will continue to be met equally by all partners although given the stage of development that has been reached these are unlikely to be significant in future. All costs will continue to be agreed by Partner Funds as part of the annual budget and strategic plan.

5.3 To give effect to these changes it is necessary to make changes to a number of the legal agreements which underpin the Company's operation.

- The Shareholder Agreement requires amendment in relation to the definition of the charges to be made by the Company each year and in relation to arrangements for an exiting shareholder.
- The Pensions Cost Sharing Agreement contains the principles for cost allocation requires amendment given that the principles will change. The new principles will be incorporated in the Shareholder Agreement leaving this agreement concerned only with pensions issues and making future changes easier to implement.
- The Prospectus for the investment products will need to be changed to incorporate a maximum bps charge rate which will require regulatory approval.

5.4 Tyne and Wear Pension Fund on behalf of all Partner Funds are seeking legal advice on the proposed changes.

5.5 The key issue here is the principle of changing to a more conventional charging model which was always envisaged when Border to Coast was created rather than the specific legal wording of the relevant agreements and therefore the recommendations at the head of this report seek approval of the principles involved and delegate authority to the Head of Governance, as the Authority's Monitoring Officer to execute the relevant agreements once the relevant legal advice has been received.

6 Implications

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

Financial	At this stage the scale of any change in the distribution of costs between Partner Funds cannot be precisely identified as this will depend on the distribution of both costs and assets between individual products at 1st April 2024. However, it does seem likely that SYPA will see some increase in costs as it has the largest amount of AUM managed by the company and has the largest exposure to the internally managed funds which is where most of the costs to be redistributed will fall.
Human Resources	None
ICT	None
Legal	Changes to the Company's funding model require amendments to both the shareholder documentation and the various FCA approved documentation related to the investment products, which are subject to a separate notification process.
Procurement	Border to Coast is constructed as a Teckal company which means that it is possible for SYPA to directly award work to the company in the same way as an internal department without further procurement.

George Graham

Director

Background Papers	
Document	**Place of Inspection**

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Agenda Item 20

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