

Date: 01 November 2023

To: MEMBERS OF THE SOUTH YORKSHIRE
LOCAL PENSION BOARD

Oakwell House
2 Beevor Court
Pontefract Road
Barnsley
S71 1HG

www.sypensions.org.uk

This matter is being dealt with by: Governance Team
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Dear Member

SOUTH YORKSHIRE LOCAL PENSION BOARD
Thursday, 9 November 2023

A meeting of the South Yorkshire Local Pension Board will be held at **Oakwell House, 2 Beevor Court, Pontefract Road, Barnsley, S71 1HG on Thursday, 9th November, 2023 at 10.00 am.**

The agenda is attached.

Yours sincerely



Sarah Norman
Clerk

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Distribution: Riaz Nurennabi (Chair), Nicola Doolan-Hamer, Danny Gawthorpe, Andrew Gregory, Nicola Gregory, Cllr Emma Hoddinott, Cllr Ken Richardson, Garry Warwick and David Webster

Terms of Reference

1. Compliance and Control

- 1.1 To review administrative governance and risk management processes and procedures in order to ensure they remain compliant with the Regulations and Regulators 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 the Scheme administration from the scheme members' and employers' perspective including making any recommendations for changes to the Pensions Administration Strategy.
- 2.2 Assess the quality of service provided by the Pensions 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. Budget

- 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 LOCAL PENSION BOARD

THURSDAY, 9 NOVEMBER 2023 AT 10.00 AM, OAKWELL HOUSE, 2 BEEVOR COURT, PONTEFRACT ROAD, BARNSELY, S71 1HG

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SOUTH YORKSHIRE PENSIONS AUTHORITY

LOCAL PENSION BOARD

10 AUGUST 2023

PRESENT: R Nurennabi (Sheffield Hallam University) (Chair)

N Doolan-Hamer (Unison) (Vice Chair), D Gawthorpe (Unite), N Gregory (Academy Representative), Councillor K Richardson (Barnsley MBC), Garry Warwick (GMB)

C Scott (Independent Advisor to the Board)

Officers in Attendance: G Graham (Director) J Stone (Head of Governance) S Ghuman (Deputy Clerk) N Keogh (Interim Assistant Director – Pensions) A Palmer (Team Leader – Governance) C Knowles (Executive Management Support Officer)

APOLOGIES: D Webster (Employee Representative), Cllr E Hoddinott (Rotherham MBC), Andrew Gregory (Scheme Member Representative)

1 WELCOME, INTRODUCTIONS AND APOLOGIES

Chair welcomed everyone to the meeting. Apologies were noted as above.

2 ANNOUNCEMENTS

Second councillor representative has been appointed by Rotherham, Cllr Emma Hoddinott which was agreed last month.

3 ELECTION OF CHAIR & VICE-CHAIR

Following a postal ballot of members of the Board it was confirmed that:

Riaz Nurennabi was elected as Chair of Local Pension Board.

Nicola Doolan-Hamer was appointed Vice Chair.

4 URGENT ITEMS

None

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

Item 18 – Report based on a contract to be dealt with in private.

6 DECLARATIONS OF INTEREST

Claire Scott declared her involvement as an advisor with other funds who are also affected by the pooling consultation at Item 8.

7 MINUTES OF THE MEETING HELD ON 27 APRIL 2023 AND ACTIONS AND MATTERS ARISING

None.

The Board requested that an action tracker be added to future Board papers to provide updates on outstanding actions.

8 REVIEW OF THE CONSTITUTION LOCAL PENSION BOARD TERMS OF REFERENCE

The Head of Governance presented the report.

In debating the report members drew attention to the following issues:

- An inconsistency in relation to the term of office for councillor members. The Director explained that while he was supportive of a 3-year term this was a matter that would need to be agreed by District Councils.
- The need to reflect the regular rotation of the Chair and Vice Chair roles between employer and employee representatives.
- The need for the definition of the employer “constituencies” to reflect the agreed more generalised position.

Members also discussed issues arising from the introduction of allowances which indicated the need for further guidance which officers agreed to take forward.

The Board Resolved:

- a) To recommend to the Pensions Authority that the revised constitution be approved subject to
- b) The inclusion of provision to rotate the roles of Chair and Vice Chair between employee and employer representatives every two years.
- c) The inclusion of the correct definitions of “constituencies” for employer members.
- d) The Authority resolving with the District Councils the term of office for Councillor members.

9 REGULATORY AND POLICY UPDATE

The Director presented the report highlighting key areas of ongoing regulatory development including McCloud Regulations, the Divestment, Boycotts and Sanctions Bill and the Consultation of Future Investments.

A discussion was held on the Consultation on the Future of LGPS Investments, of which the Board sought assurance from the officers around:

- Ensuring appropriate staffing is in place to cope with frequent government changes to legislation.
- Pooling mergers are being looked at from the angle of efficiency and return on investment as opposed to the size, as mergers can involve huge costs.
- The level of control we possess within Border to Coast to make decisions on pooling.

The Authority will respond to the consultation and an officer draft was circulated yesterday to advisers and following comment would be circulated to section 41 members and the Chair and Vice Chair of the Board. Board members were welcome to provide any comments they would like incorporated before it goes to the Authority for approval.

RESOLVED: Members accepted the report.

10 PROGRESS ON ACTIONS RESULTING FROM AUDITS/INSPECTIONS

The Governance Team Leader presented the report.

The Board welcomed the introduction of this report to the Board's agenda. Independent Advisor raised the point that little on Governance was included in the Audit plan.

RESOLVED: Members noted the report.

11 COMPLIANCE WITH PENSIONS REGULATOR CODE OF PRACTICE 14

This paper was for assurance purposes.

It was reported that it is hoped that the new performance system will, in due course, provide oversight of compliance with The Pensions Regulator's codes of practice.

RESOLVED: Members noted the report.

12 LOCAL PENSION BOARD MEMBERSHIP & TRAINING UPDATES

This paper was for information only for assurance purposes.

The Board discussed the knowledge assessments and the recent changes in membership of the Authority and Board. The Head of Governance reported that new members will undertake the knowledge assessment over the coming months. The Director reported that no progress has been made on finding an employer representative to fill the vacancy on the Board and this will be advertised in the next employer bulletin due in October.

RESOLVED: Members noted the report.

13 GOVERNANCE UPDATE

The Head of Governance presented the report.

The key points noted were:

- Pentana Risk Management system due to go live on 24th August.
- Changes to the appeals process will be launched in late September/early October.
- Ill Health process is currently under review.

RESOLVED: Members noted the report.

14 PENSIONS ADMINISTRATION QUARTERLY REPORT

The Interim Assistant Director – Pensions presented the report.

Key points highlighted:

- Evaluating whether Service Level Agreements (processing times) are fit for purpose in the LGPS in 2023. Current SLA targets are 5 days for a number of key processes such as retirements and deaths and we are not meeting this. 10 days is common practice across the LGPS and seems to be widely accepted by other scheme members particularly following trend of continuous growth in workload.
- Focus groups held with staff to address backlog issues and a capacity plan has been produced and is being taken through decision making processes.
- Debbie Sharp has now been appointed as a permanent Assistant Director – Pensions to replace Nigel Keogh (Interim Assistant Director – Pensions) and will start in November.

The Board raised several questions including:

- If an increase in the Service Level Agreement would be permanent or temporary
- If the capacity plan anticipates future rises in volumes
- Identifying what bottlenecks are causing the backlogs in Pensions Administration

The Board requested that a project plan which outlined the agreed actions to address the service pressures to be brought to the next meeting.

RESOLVED: Members noted and accepted the report.

15 BREACHES, COMPLAINTS AND APPEALS

The Director delivered the report.

Key points highlighted were:

- Section 5.5 in reference to the five transfer cases, the Authority is currently working with members to reinstate their benefits due to non-compliance.
- Overall number of complaints remains low.
- Cyber Essentials accreditation was achieved this month and currently in the interview process to achieve the Cyber Essentials Plus Accreditation.

The Board congratulated the Authority on its low number of complaints and breaches.

Officers assured the Board that they are on target to produce Annual Benefits Statements by the end of August.

RESOLVED: Members noted the report.

16 RISK REGISTER (UPDATE AND ACTIONS)

The Team Leader – Governance delivered the report.

Key points highlighted were:

- CARE re-evaluation date risk can be closed at the next review.
- Risk P2 linked to the Assistant Director position will reduce further at the next review once the permanent appointment is in place.
- New system Pentana will go live late August, and part of this will focus on the risk register.

The Board raised there was no reference to the backlogs in Pensions Administration highlighted in the risk register. Officers indicated that this was to an extent covered in other risks but accepted that the issue had reached the stage where it should be a separate risk, and this would be reflected in the next review of the risk register.

RESOLVED: Members noted the report.

17 SCHEDULING OF LOCAL PENSION BOARD NEXT MEETING AGENDA

The Head of Governance presented the next agenda.

The Board requested that future agendas are structured under broad subject headings e.g. Governance, Administration etc.

RESOLVED: Members noted the report.

18 PRIVATE PAPERS FROM AUTHORITY MEETING HELD ON 8TH JUNE 2023

The Board discussed a confidential paper which had been considered by the Authority on the status of contract with Civica for the Pensions Administration system.

RESOLVED: Members noted the paper and the course of action agreed by the Authority.

19 LOCAL PENSION BOARD ACTION TRACKER

CHAIR

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Local Pension Board – Action Tracker

Meeting Date	Agenda Item	Agreed Action	Responsible Officer	Status	Update
10 August 2023	8	Reflect recommendations from the Board in the Constitution presented to the Authority for approval.	Director/Head of Governance	Open	Revisions were completed in the final version issued to the Authority on 07 September and approved, subject to the ongoing request of revision to request 3-year membership cycles. Waiting on the update from the Deputy Clerk
10 August 2023	9	Share draft response on the consultation of future investments with the Board at the same time it is circulated to the members of the Authority.	Director	Open	Complete and further information provided at this meeting
10 August 2023	10	More areas of governance to be included on 2024-2025 Audit plan.	Head of Governance	Open	Closed it will be incorporated into the Audit Plan 2024/25
10 August 2023	12	Employer representative vacancy to be advertised in the next employer bulletin.	Director	Open	Vacancy advertised in employer newsletter.
10 August 2023	13	Appointments coming to an end in the next 6-12months to be brought to the board.	Head of Governance	Open	Closed, these will be brought to the board on 15 February

					2025 meeting
10 August 2023	13	Present Pentana Dummy report to LPB in the new year.	Head of Governance	Open	Ongoing as advised, this will be presented in the New Year to the board. Pentana went live on 24 August as scheduled.
10 August 2023	14	Project Plan which outlines the agreed actions to address the service pressures to be brought to the board at the next meeting.	Interim Assistant Director - Pensions	Open	
10 August 2023	14	Request the Authority attempts to provide a shorter, more succinct report on pensions administration for future meetings.	Interim Assistant Director - Pensions	Open	
10 August 2023	16	SMT to include backlogs on risk register more explicitly.	Director	Open	In progress
10 August 2023	17	Future agendas to be structured under broad subject headings e.g. Governance, Administration etc.	Head of Governance	Open	Noted and actioned

Agenda Item

Subject	Review of the Authority's Annual Report	Status	For Publication
Report to	Local Pension Board	Date	9 th November 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 review the Authority's Annual Report for 2022/23 in the context of the relevant guidance.

2 Recommendations

- 2.1 Members are recommended to:
- a. Consider the Authority's Annual Report (at Appendix B) and,
 - b. Make any recommendations considered necessary to improve the presentation of the report and/or to improve compliance with the relevant guidance at Appendix A

3 Link to Corporate Objectives

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

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

Effective and Transparent Governance

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

The Annual Report is a key part of the Accountability Framework for LGPS Funds and it is important that it continues to be developed as a means of communication with stakeholders and that it complies with the relevant guidance.

4 Implications for the Corporate Risk Register

- 4.1 Reviewing the Annual Report in the way proposed in this report impacts on the risk related to regulatory compliance contained in the Corporate Risk Register.

5 Background and Options

- 5.1 The LGPS Regulations require that each LGPS Fund produce an annual report which is published before the 1st December following the relevant year end. Elements of the contents of the report are set out in the regulations but the bulk of the content of the report is set out in guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which represents a statutory proper practice. The latest version of the CIPFA Guidance is at Appendix A.
- 5.2 The Local Pension Board has previously indicated a desire to review key communications from the Authority to stakeholders and the Board also has a role in ensuring regulatory compliance. It is therefore appropriate for the Board to review the Annual Report for 2022/23 which was published on 23rd October 2023 and is available [here](#). The Board may wish to consider whether there are any areas where it can be improved in terms of the way issues are communicated and/or compliance with the guidance.

6 Implications

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

Financial	None directly
Human Resources	None
ICT	None
Legal	This report is part of a process of ensuring regulatory compliance
Procurement	

George Graham

Director

Background Papers	
Document	Place of Inspection

preparing the annual report

Guidance for Local Government
Pension Scheme Funds
2019 Edition



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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preparing the annual report

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Pension Scheme Funds
2019 Edition

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Foreword

When the requirement to publish an annual report was introduced into the Local Government Pension Scheme (LGPS) Regulations in 2013 it represented a major change. All LGPS funds now produce an annual report, promoting awareness of the scheme and providing members and stakeholders with relevant information in an accessible and consistent manner.

A great deal has changed since the last edition of this guidance was published in 2014. Asset pools, new legislation on investing, governance and benefits, and changes to year-end financial reporting have all brought new challenges for practitioners and there is a continued focus on funding levels and investment management costs.

This guidance is published in order to assist practitioners in meeting the requirements of the current regulatory framework, and to support the LGPS Advisory Board in the production of a scheme-wide annual report for England and Wales. Changes to the guidance since 2014 reflect national developments in terms of the following:

- New governance arrangements introduced by the Public Service Pensions Act 2013.
- CIPFA's working group on pension fund administration.
- Post Pool Reporting Guidance (for England and Wales).

Peter Moore,
Chair of CIPFA Pensions Panel

Acknowledgements

The CIPFA Pensions Panel would like to acknowledge the contribution of everyone involved in the production of this report, namely:

- Heidi Catherall, Cheshire Pension Fund
- Ciara Chivers, Cabinet Office
- Teresa Clay, Ministry for Housing, Communities and Local Government
- Gareth Davies, CIPFA
- Jeff Houston, LGPS Advisory Board
- Neil Sellstrom, CIPFA
- Peter Worth, Worth Technical Accounting Solutions Ltd.

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Background and status

BACKGROUND

The purpose of this guidance is to assist local government pension funds with the preparation and publication of the annual report required by Regulation 57 of The Local Government Pension Scheme Regulations 2013 (England and Wales) and Regulation 55 of The Local Government Pension Scheme (Scotland) Regulations 2018.

The annual report is a key component of communication between pension funds and their stakeholders, who range from individual members and employing bodies to trades unions, government departments, analysts and commentators. In Scotland and Wales the pension fund accounts are no longer included in the administering authority's financial statements, therefore their annual reports must contain sufficient information to meet the demands of this diverse readership and to be read and understood in isolation.

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015, with the publication of criteria and guidance on pooling of LGPS assets to deliver significantly reduced costs while maintaining overall investment performance and achieving benefits of scale. The pension funds have come together to form eight asset pools – further details can be found in the [MHCLG guidance on pooling](#). Pension funds in England and Wales are encouraged to use their annual report as a mechanism for informing readers about their pool and the fund's participation, by explaining:

- progress made to date in establishing asset pools, set up costs and transition of assets
- changes to investment costs and expected savings
- changes to asset allocation strategies, investment costs and yields brought about by pooling
- asset pool structures and governance arrangements.

This guidance represents a general framework for reference purposes only. It identifies the topics that need to be covered and provides illustrations of how these requirements could be addressed in practice but does not prescribe the format or level of detail required. There is no requirement for annual reports to follow the ordering or structure of this report, equally there is no 'correct' or 'recommended' length or layout. Funds are encouraged to develop their own reporting style depending on the preference of users, and to:

- adopt the use of graphs, charts and visuals as appropriate
- use cross-referencing within the document to avoid duplication where possible.

STATUS

In England and Wales, the Ministry for Housing, Communities and Local Government (MHCLG) has adopted this guidance as statutory guidance for the purposes of the 2013 Regulations. In Scotland this guidance is advisory only however those funds are encouraged to adopt it on a 'best practice' basis.

In applying this guidance pension funds should ensure that their annual report is suitable for their circumstances and readership. This will require the exercise of local judgement and decisions regarding the level of detail provided in the report or appendices, subject to the scope allowed by legislative requirements and the discretionary elements of this guidance.

This guidance uses the following terms for different elements:

Must	Compliance is mandatory. Any non-compliance should be clearly identified in the annual report and an explanation provided.
Should	Compliance is anticipated but is discretionary. Where non-compliance may be significant or material for the readers the non-compliance should be identified and explained.
May	Compliance is recommended but is discretionary.

This guidance is applicable to 2018/19 annual reports and later years. For items where data has not previously been collated, pension funds should exercise judgement regarding the costs and benefits of compiling data retrospectively and consider whether alternative data can be provided for 2018/19. Where significant variation from this guidance is considered appropriate an explanation should be provided.

For England and Wales this guidance includes recommendations and illustrations in relation to asset pooling arrangements. The MHCLG and the LGPS Scheme Advisory Board have indicated that they will, so far as possible, use data provided in pension fund annual reports to draft future national reports for the LGPS in England and Wales and to review progress made in implementing asset pools. Where annual reports do not provide sufficient or consistent information, these bodies have advised that pension funds may be contacted directly in order to obtain additional data.

STATUTORY REQUIREMENTS

In England and Wales, the statutory basis for LGPS annual reports for periods beginning on or after 1 April 2014 is Regulation 57 of the Local Government Pension Scheme Regulations 2013 (as amended), which is reproduced below:

Pension fund annual report

57.— (1) *An administering authority must, in relation to each year beginning on 1st April 2014 and each subsequent year, prepare a document (“the pension fund annual report”)*

which contains—

- (a) *a report about the management and financial performance during the year of each of the pension funds maintained by the authority;*
 - (b) *a report explaining the authority’s investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;*
 - (c) *a report of the arrangements made during the year for the administration of each of those funds;*
 - (d) *for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 62 (actuarial valuations and certificates), of the level of funding disclosed by that valuation;*
 - (e) *the current version of the statement under regulation 55 (governance compliance statement);*
 - (f) *for each of those funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;*
 - (g) *an annual report dealing with—*
 - (i) *the extent to which the authority and the Scheme employers in relation to which it is the administering authority have achieved any levels of performance set out in the pension administration strategy in accordance with regulation 65(2)(b), and*
 - (ii) *such other matters arising from their pension administration strategy as they consider appropriate;*
 - (h) *the current version of the statement referred to in regulation 58 (Funding Strategy Statement);*
 - (i) *[From 1st April 2017, the current version of the investment strategy statement as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016] (formerly the statement of investment principles);*
 - (j) *the current version of the statement under regulation 61 (statements of policy concerning communications with members and Scheme employers); and*
 - (k) *any other material which the authority considers appropriate.*
- (2) *The authority must publish the pension fund annual report on or before 1st December following the year end.*
- (3) *In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State.*

In Scotland Regulation 55 of the LGPS (Scotland) Regulations 2018 mirrors the above requirements except that:

- Scottish pension funds are required to publish a statement of investment principles under the LGPS (Management and Investment of Funds) (Scotland) Regulations 2010 in place of an investment strategy statement
- Scottish pension fund annual reports are required to include details of external borrowing (Section N refers).

As stand-alone documents comprising year-end financial statements, annual reports in Scotland and Wales are required to contain specific information in order to meet the requirements of CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (The Code or CoP), and the accounts and audit regulations in these jurisdictions. Section N provides further details.

Publication of annual reports

MANNER OF PUBLICATION

The annual report must be published as either a printed document or as an electronic publication on the pension fund or administering authority's website. The full document must be provided and not just a summary. Statutory requirements in England and Wales are to publish the following documents in full as part of the annual report:

- the funding strategy statement
- the investment strategy statement (in Scotland the statement of investment principles)
- the governance compliance statement, and
- the communication policy.

Other information may be provided using web-links or signposting to alternative sources of information as appropriate.

TIMING OF PUBLICATION

Regulations require the annual report to be published on or before 1 December in England, Wales and Scotland.

In Scotland and Wales, the pension fund annual report is the only publication required to contain the full year-end statement of accounts, whereas in England the pension fund accounts are also published as part of the administering authority's audited financial statements.

AUTHORISATION

Although not specifically required by legislation, the annual report should be formally reviewed by those charged with governance at the pension fund and authorised by the chair of the pensions committee and the director of finance (or their equivalents). This should not be confused with the separate process for the review and approval of the administering authority's annual accounts, which is a legal requirement under each jurisdiction's accounts and audit regulations.

Local pension boards, established in 2015, are not decision-making bodies but do have a specific remit under The Public Service Pensions Act 2013 to ensure that pension funds meet all relevant legal requirements. The Scheme Advisory Board for England and Wales has therefore recommended that part of their remit should be to review the financial statements and annual report prior to publication (see Schedule A of Scheme Advisory Board Guidance, published February 2015).

CHAPTER 3

The guidance

INTRODUCTION

This guidance follows the structure of Regulation 57 (Regulation 55 in Scotland) with a section for each of the requirements listed. There is no requirement for annual reports published by LGPS pension funds to follow the structure of this report.

A: OVERALL FUND MANAGEMENT

Scheme management and advisers

The report **must** list the names and, where appropriate, contact details for:

- officers responsible for the fund
- the asset pool and asset pool operator (England and Wales)
- investment managers used by the fund, including where applicable contact details for any elements of the fund which are managed internally
- the fund custodian and actuary
- additional voluntary contribution (AVC) providers
- legal advisors and bankers to the fund
- the fund accountant/director of finance
- the external auditor
- scheme administrators
- any independent advisors retained by the fund (eg for investment and governance).

Risk management

The report **should** contain a commentary on the arrangements for the identification and management of risk which is consistent with (and cross references to) disclosures regarding the use of financial instruments in the year-end accounts. Pension funds **may** for example wish to explain:

- how risk management is integrated within the governance structure
- how risks are identified, managed and reviewed
- what actions are being taken to mitigate the key risks identified
- assurance provided by the work of internal audit
- how investment risk is managed
- risks relating to investment pooling arrangements

- the approach taken to managing third party risk such as late payment of contributions
- how assurance is sought over third party operations, eg ISAE 3402 (formerly AAF 01/06) and SSAE16 (formerly SAS70) reports.

The 2018 CIPFA publication [Managing Risk in the LGPS](#) provides more detail on the identification, management and reporting of risks, and some examples of risk management disclosures are provided below for information:

a) Pension fund risk register

Risk area	Risk rating	Responsible officer	Mitigating actions
<p>Administration</p> <p>Third parties undertaking administration work do not maintain accurate and up to date membership records.</p>	●	Pensions administrator	Sample testing by internal audit of 1% of all files will enable accurate assessment of error rate and resources needed to clear administration backlog.
<p>Regulation</p> <p>MiFID II restricts investment options and increases IM costs.</p>	●	City treasurer	MiFID II training for all pension committee members and all staff involved in the opting up process.
<p>Investment</p> <p>Fund managers fail to achieve target returns.</p>	●	City treasurer	Independent monitoring of fund manager performance against targets. Fund manager performance is reviewed quarterly.

b) Controls assurance reports

Fund manager	Type of report	Assurance obtained	Reporting accountant
Bailie Gifford	ISAE 3402	Reasonable assurance	KPMG LLP
Hermes	ISAE 3402	Reasonable assurance	Deloitte LLP
Insight	ISAE 3402	Reasonable assurance	PwC LLP
Standard Life	ISAE 3402	Reasonable assurance	PwC LLP
Custodian			
Northern Trust	ISAE 3402	Reasonable assurance	KPMG LLP

c) Internal audit testing.

Benefit payments and lump sums	Annual testing	Yes	
Employee contributions	Annual testing	Yes	
Employer contributions	Annual testing	Yes	
Membership records	Annual testing	Yes	
Administration and Governance costs	Every 5 years	No	N/a
Investment management costs	Every 3 years	No	N/a

B: FINANCIAL PERFORMANCE

While other sections of the annual report consider the management of pension fund investments, this section **must** provide an overview of the fund's financial performance, focused primarily on income, expenditure and cash flows.

Pension funds **must** meet this requirement by providing an analysis or narrative explanation of in-year expenses and income together with a comparison over time or against budget. This **should** separately identify major categories of income and expenditure, for example:

- staff costs (both direct and internal recharges), premises, IT, supplies and services, costs of democracy and any other administration costs and miscellaneous income
- benefits payable, transfers in and out, investment management and governance expenses
- members' and employers' contributions
- net inflows and outflows to the fund in respect of dealings with members.

Pension funds **may** also wish to include forecasts of future income and expenditure, or cash flow forecasts. As a minimum, pension funds **should** explain the relationship between changes to costs and income and factors such as changes in membership numbers, age profile of pensioners, bulk transfers etc.

Pension fund annual reports **must** also include the following information:

- a brief commentary on any significant changes to non-investment assets and liabilities during the year
- employers' and employees' contributions as a % of pensionable pay, details of late and overdue contributions, and of whether the option to levy interest on overdue contributions has been exercised
- analysis of pension overpayments, recoveries and any amounts written off
- results of participation in National Fraud Initiative (NFI) exercises (data matches, overpayments identified, actions taken, etc)
- other examples of fraud, credit losses, provisions, contingent liabilities or impairments.

C: INVESTMENT POLICY AND PERFORMANCE REPORT

This section of the annual report is intended to demonstrate how the investment strategy statement has been put into practice during the year and how this links to the funding strategy statement. Readers **should** be able to understand the fund's investment management arrangements and the risks, returns and management costs associated with the investment portfolio.

The planned asset allocation **must** be provided along with the actual asset allocation for the beginning and end of the financial year in question, together with explanations for significant changes during the year. This section of the report **must** also include a commentary on the implementation and application of the funding strategy statement during the reporting period, or cross-refer to where this statement is provided in the annual report.

This section of the report **must** include details of investment administration and custodianship, and describe who looks after which part of the portfolio (if not already provided elsewhere). Investment performance for each fund manager or asset class **must** be reported alongside the information used by managers and members to assess fund performance such as:

- comparison with returns achieved by similar pension funds with appropriate narrative contextual information
- performance targets in fund manager's contracts where this is not commercially sensitive, or industry benchmarks for one year, three years and five years.

The pension fund **may** also wish to provide details of any environmental, social and governance issues, and other initiatives such as engagement with companies and any collaborative ventures with other funds. This might include, for example:

- the fund's response to the UK Stewardship Code
- details of any bodies of which the fund is an active member, subscriber or signatory, such as CIPFA, PLSA LAPFF, UKSIF, UNPRI, etc
- summary information on where and how voting rights have been exercised
- information on responsible investing
- actions taken to comply with Myners' investment principles or similar codes of practice.

The CIPFA publication [Accounting for Local Government Pension Scheme Management Expenses](#) (2016) recommends that this section of the annual report **should** also be used to:

- identify fees and costs incurred by third parties which affect overall investment returns
- explain the relationship between fees, risk and investment return
- indicate how the pension fund is responding to the Transparency Code, and the use being made of data provided by fund managers using the transparency code templates. See the Local Government Pension Scheme Advisory Board's [website](#) for further details.

D: SCHEME ADMINISTRATION

The scheme administration section of the annual report **must** cover the following areas:

- a statement on the value for money achieved by the administration function

- a summary of activities undertaken by the service during the year
- key performance data including data quality standards
- other qualitative information such as customer satisfaction levels, communication policies and the complaints procedure
- an explanation of organisational arrangements ie how the service is delivered.

Value for money statement

This statement **should** demonstrate the efficiency and effectiveness of each fund’s scheme administration and the commitment to enhancing the value for money of this function. This **should** include reflecting on the level of resources and comparability of key performance indicators over time and to national averages. There **should** also be a comment on the current levels of data quality on common data standards which are fundamental for both the valuation of the funds’ liabilities and how this is subsequently reported in the fund accounts and risk management arrangements.

Summary of activity

This section **should** outline the work undertaken by the administration section of the fund during the year. The pension fund **may**, for example, include information in respect of:

- major pieces of work/projects undertaken by the fund (eg guaranteed minimum pensions reconciliation exercises), summarising action taken during the year, progress achieved and next steps for the following year, where applicable
- technological or pensions administration systems developments taking place during the year, including details of the impact that they have/will have. For instance, moving from annual to monthly reporting systems or improvements in the timeliness and accuracy of data received from employers
- action being taken to improve data quality, outlining data quality audit arrangements and scores reported to The Pensions Regulator (TPR) in the TPR Scheme Return on Common and Scheme Specific Data.

Key performance data

This section of the annual report **should** cover the following:

Performance indicators	<ul style="list-style-type: none"> ■ Details of the most common casework areas ■ % of tasks completed against target.
Financial indicators	<ul style="list-style-type: none"> ■ unit costs per member including and excluding investment costs ■ benchmarking of unit costs against appropriate comparators (either formal benchmarking or informal peer comparison).
Staffing	<ul style="list-style-type: none"> ■ staff numbers (FTE) and staff to fund member ratios ■ average cases per member of staff.

A working party set up by CIPFA during 2018 is aiming to develop a process whereby scheme administration data can be captured on a consistent basis and shared between funds. This group has suggested that as a first step towards effective benchmarking all LGPS pension

funds **should** collect and publish in their annual reports a summary of the information included in Annex 2. For further details please contact the [CIPFA Pensions Network](#). As an alternative, data from SF3 forms or locally determined key performance indicators **may** be used. Whatever method is selected, the annual report **should** explain:

- the source of key performance data included in the annual report
- the services this information relates to
- which costs have been included or excluded and why
- what action has been taken to verify information provided by third parties
- the action has been or is being taken to maintain and improve performance levels.

Other information

As requested by the Local Government Pension Scheme Advisory Board, which wishes to collate this information for inclusion in its national annual report, the administration section of the annual report **must** also contain:

- analysis of the fund’s membership data (active, deferred, pensioner and undecided leavers – ie those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due)
- details of new pensioners each year analysed by ill-health, early and normal retirement
- a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities). This data **should** be shown in tabular format as follows:

	Active	Ceased	Total
Scheduled body	xx	xx	xxx
Admitted body	xx	xx	xxx
Total	xxx	xxx	xxx

Pension funds **may** also wish to provide details of:

- complaints received, and satisfaction levels for employers and members based on surveys, questionnaires or other feedback received
- a commentary on how employer discretions have been exercised in the reporting period eg added years’ service, early retirement or enhanced payments.

How the service is delivered

This section of the annual report **must** include a description of the key services provided to pensioners, members and employing bodies. This **should** cover, for example:

- areas where technology is used by the fund eg member and employer self-service portals
- key information sources for members such as websites, helpdesk facilities and workplace representatives

- for both scheme membership records and benefits administration, a broad outline of the arrangements in place including who undertakes each activity and how they can best be contacted
- arrangements in place for ensuring accuracy and confidentiality.

Where administration functions have been outsourced, annual reports **should** explain how these arrangements operate in practice and how the pension fund monitors these operations.

This section of the report **may** also contain:

- an outline of the fund's internal dispute resolution procedure, any new dispute cases arising during the year and how these have been resolved
- contact details for the Pensions Advisory Service and the Pensions Ombudsman
- information on how to access any policies or guidance produced by the LGPS for employing bodies or members.

E: ACTUARIAL REPORT ON FUNDS

All LGPS funds are required to commission a revaluation of all of their funds on a specified date every three years. Under Regulation 57 in England and Wales (Regulation 55 in Scotland) the annual report **must** disclose the current level of funding as reported by the actuary at the last triennial revaluation.

This section of the annual report **should** also include either the actuary's full report or a web-link to the actuary's report on the pension fund website. The pension fund **may** provide additional information as necessary to assist the reader, for example:

- a comparison between current and previous funding levels
- a comparison of funding levels with other local government pension schemes
- an explanation of what is being done to improve low funding levels
- details of any significant variations in funding levels between employing bodies
- the results of any subsequent interim valuations
- key assumptions underpinning the valuation such as pensioner longevity, asset returns and discount rates
- use of discretionary powers which are impacting on the fund's solvency.

F: GOVERNANCE

Regulation 55 of the LGPS Regulations 2013 (Regulation 53 in Scotland) prescribes the content of the governance compliance statement which **must** be included in the annual report. The governance compliance statement **should** outline the overall governance structure in place including:

- the respective roles and responsibilities of the pensions panel, pensions or investments committee, local pensions board and any related sub-committees or advisory panels, explaining whether each one is executive or advisory

- membership of each panel, board, committee or sub-committee with a matrix showing each member’s voting rights, record of attendance at meetings and details of training received during the reporting period
- how the CIPFA Knowledge and Skills Framework has been applied
- how oversight and governance of the asset pool takes place (see Section H)
- other key elements of the governance structure (eg key officers, risk management arrangements)
- policies and processes for managing conflicts of interest (eg codes of conduct, register of interests).

Some pension funds set out this information using a table or matrix as shown below:

	Chair	Vice chair	AB council Member	AB council member	CD council member	CD council member	EF council member	Other employer	Employee representative
Committees (three hours)									
Special Committee	✓	✓	✓	✓	✓	✓	✓	✓	✓
April 2017									
May 2017	✓	✓	✓	✓	✓		✓	✓	✓
July 2017	✓	✓	✓	✓	✓	✓	✓	✓	✓
Training attended									
Governance (one day)	✓	✓	✓	✓	✓	✓	✓		✓
Funding and actuarial (one day)		✓	✓	✓	✓	✓	✓	✓	✓
Investments (one day)		✓	✓	✓			✓	✓	✓
Accounting		✓		✓	✓		✓		✓

Either in the governance compliance statement itself or in a separate section of the annual report, pension funds **should** illustrate how governance works in everyday terms for the reader, eg by including:

- a commentary on the work undertaken during the year by both the pensions committee (or equivalent) and the local pension board
- a copy or summary of any annual report produced by the pensions committee (or equivalent) and/or the local pension board, or
- links to the above.

Other information may also be included, for example:

- explanations of how codes of conduct operate in practice
- details of training offered and take-up (training is mandatory for local pension board members but not for a pensions committee)

- how the fund meets the requirements of the CIPFA/SOLACE *Good Governance Framework*.

G: FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

The annual report **must** include a fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper accounting practices for each of its pension funds. The financial statements **must** be drawn up in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA/LASAAC (the Code) which sets out the proper accounting practices to be followed.

Detailed guidance on the accounting and disclosure requirements for LGPS financial statements is published by CIPFA and [can be found online](#). This guidance includes a Code disclosure checklist.

In England, the primary financial reporting of the pension fund is currently through the annual statement of accounts for the pension fund administering authority, therefore the pension fund accounts in the annual report **must** match those in the administering authority's annual statement of accounts. In Scotland and Wales, the annual report is the only reporting route for the pension fund annual accounts.

H: ASSET POOLS (ENGLAND AND WALES)

In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- benefits of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure.

This has led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with individual pension funds.

In 2016 CIPFA and AON published *Investment Pooling Governance Principles*, in order to support LGPS funds through the transition to asset pools and specifically to ensure they continued to operate strong governance arrangements. There are a number of governance issues to consider with new pooling arrangements, specifically:

- the relationship between the pension fund and the asset pool
- the governance structure of the pool – most have decided to adopt joint committee arrangements for oversight and governance functions
- the role and involvement of administering authorities.

The following information relating to investment pooling arrangements must be set out in the annual report as part of the process of communicating with stakeholders*:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class

- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

**in line with current draft guidance on asset pooling published by MHCLG (January 2019)*

This information **may** be presented all together or in separate sections of the annual report, as shown below:

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

- Scheme management and advisors – **must** include name and contact details of the pool company.
- Risk management – **should** include risks relating to the investment pooling arrangements.
- Financial performance – information **must** include costs associated with the appointment and management of the pool company including set up costs, investment management expenses, and costs relating to the oversight committee – see below for further details.

INVESTMENT POLICY AND PERFORMANCE REPORT

This section of the annual report **must** highlight which areas of the portfolio are part of the investment pooling arrangement and which are not. Where assets are both pooled and not pooled, the report **must** provide key investment information separately.

GOVERNANCE COMPLIANCE STATEMENT

This **should** be an updated version including information relating to the pool governance body.

FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

In preparing this information, local authorities **must** account for pension funds in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* which includes comment that preparers have due regard to CIPFA's *Accounting for Local Government Pension Scheme Management Expenses* (CIPFA, 2016).

All pool companies **should** be familiar with these requirements and provide information in line with CIPFA's management expenses guidance as well as with the Code of Practice. Consideration will also need to be given to identification and disclosure of costs relating to the pool governance body, training, administration and adviser costs.

INVESTMENT STRATEGY STATEMENT

The investment strategy statement **should** be updated to include the approach to asset pooling and the proportion of assets that will be invested through the pool. This **should** include the structure and governance arrangements and the mechanisms by which the administering authority can hold the pool to account.

ANY OTHER APPROPRIATE MATERIAL

This **may** include, for example, information relating to knowledge and skills and training relevant to asset pooling. All information relating to investment assets **must** clearly state whether the assets are held via the pool company or not.

POST POOL REPORTING

The CIPFA publication [Proposals for Post Pool Reporting](#) (May 2018) acknowledged that there was a legitimate public interest in asset pools which could not be adequately met from information contained in year-end accounts. Annual reports **should** therefore include a narrative commentary explaining changes to investment costs where appropriate in terms of:

- changes in the value of investment assets between pooled and non-pooled investments
- changes in investment strategies and asset allocations
- changes implemented as a result of pooling, such as re-balancing of direct and pooled investments, changes in the split of active and passive investments, renegotiated fund mandates, new fee structures (eg changes to ad valorem fees) or new suppliers
- changes in the supplier market (eg regulation, competition, innovation)
- exceptional costs, including costs of establishing pools and transitioning to them
- increased transparency – changes in the way the information is presented
- any other factors.

Proposals for Post Pool Reporting identified additional information requirements at four specific stages in the process of transitioning to regional asset pools:

- pool set up costs
- ongoing investment management costs
- asset allocations and performance
- savings delivery.

Each is considered in turn below. Tables have been developed to promote consistency of disclosure between pension funds and to assist the MHCLG and Scheme Advisory Board. A summary of frequently asked questions on these tables is provided in Annex 3.

In order to assist the reader, the purpose of each table included in the annual report **should** be clearly explained.

Pool set up costs

The following information on set up costs **must** be included in the annual report. Since set up costs are likely to straddle more than one financial year, cost disclosures in annual reports **must** include the cumulative position as shown below. For pools operating outside London, actual costs **should** be compared to March 2015 Business Case submissions to MHCLG.

	Direct	Indirect	Total	Cumulative
	£000s	£000s	£000s	£000s
Set up costs:				
■ Recruitment				
■ Legal				
■ Procurement				
■ Other support costs eg IT, accommodation				
■ Share purchase/subscription costs*				
■ Other working capital provided eg loans				
■ Staff costs**				
■ Other costs				
TOTAL SET UP COSTS				
Transition costs:				
■ Transition fees				
■ Taxation (seeding relief)				
■ Other transition costs				
TOTAL TRANSITION COSTS				

* Include the cost of purchasing shares in the asset pool vehicle where this is a company limited by share capital. Even if these costs have been treated as an investment in the pension fund accounts or single entity authority accounts, these are a directly attributable cost of setting up the asset pool and so should be included in the table above. Similarly until the asset pools are fully operational it is likely that asset pools may need to charge a subscription fee to pool members, which should be included in the set-up costs.

** Include costs of seconded and directly employed staff involved in establishing the asset pool and working for the pool company prior to commencement of trading. For directly employed staff, costs should also include employers' pension contributions and past service pension costs if these have been transferred from their previous employment.

Set-up costs **should** then be compared to actual and expected savings. This **may** be presented in table form as set out below, alternatively charts, graphics or narrative explanations may be preferred, so long as the relevant figures are readily discernible:

- (a) Total expected costs and savings (as per business case submissions)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Set up costs	X	X							
Transition costs		X	X	X	X	X			
Fee savings			(X)	(X)	(X)	(X)	(X)	(X)	(X)
Net savings realised	X	X	X	X	(X)	(X)	(X)	(X)	(X)

- (b) Expected vs actual costs and savings to date (this table would be extended in future years as more actual data becomes available). NB: if actual and expected figures are significantly different an explanation should be provided.

	2016/17				2017/18			
	Actual		Budget		Actual		Budget	
	In-year	Cumulative to date	In-year	Cumulative to date	In-year	Cumulative to date	In-year	Cumulative to date
	£000	£000	£000	£000	£000	£000	£000	£000
Set up costs (1)	X	X	X	X	X	X	X	X
Transition costs (1)			X	X	X	X	X	X
Fee savings (2)					(X)	(X)	(X)	(X)
Net savings realised	X	X	X	X	X	X	X	X

(1) – **should** agree to pool set up costs table above

(2) – **should** agree to savings variance analysis later in this section.

NB: this example is based on a pool outside London in the early stages of transition where fee savings have yet to be realised.

Ongoing investment management costs

Information provided in the annual report **must** enable the reader to compare ongoing investment management costs between asset pools and non-pooled investment arrangements. This information **should** be based on the analysis of investment management costs that most pension funds already include in their year-end statement of accounts, as follows:

	Asset Pool				Non-Asset Pool				Fund Total	
	Direct	Indirect	Total		Direct	Indirect	Total			
	£000s	£000s	£000s	bps	£000s	£000s	£000s	bps	£000s	bps
Management fees										
■ ad valorem										
■ performance										
■ research										
■ PRIIPS compliance										
Asset pool shared costs										
Transaction costs										
■ commissions										
■ acquisition/issue costs										
■ disposal costs										
■ registration/filing fees										
■ taxes and stamp duty										
Custody										
Other										
Total £000										

Asset allocations and performance

Gross and net investment returns **should** be reported separately for investment mandates which have transitioned to asset pools and those which have not. The Scheme Advisory Board has requested that gross and net return are reported by asset class shown alongside the relevant passive index for quoted investments and local performance benchmarks for unquoted investments, as set out in the pension fund’s investment strategy.

Performance **should** be measured over one, three and five year timeframes and annual reports **should** explain exactly which performance benchmark is being applied. Presentation **should** be in table form, as shown below, with investments categorised according to their primary purpose:

Asset category	Opening value		Closing value		Performance		Passive Index*	Local Target
					Gross	Net		
	£000s	%	£000s	%	%	%	%	%
Asset pool managed investments								
■ Active listed equity								
■ Active listed fixed income								
■ Passive listed equity								
■ Passive listed fixed income								
■ Private debt								
■ Property								
■ Unlisted equity								
■ Infrastructure								
■ Cash								
■ Multi-asset funds/diversified growth funds								
■ Derivatives								
■ Hedge funds								
■ Insurance policies								
■ Other								
Total								
Non-asset pool managed investments								
■ Active listed equity								
■ Active listed fixed income								
■ Passive listed equity								
■ Passive listed fixed income								
■ Private debt								
■ Property								
■ Unlisted equity								
■ Infrastructure								
■ Cash								
■ Multi-asset funds/diversified growth funds								
■ Derivatives								
■ Hedge funds								
■ Insurance policies								
■ Other								
Total								

Savings delivery

To measure the extent to which pension funds have saved fees as a result of pooling, pension funds **should** calculate price and quantity variances. The price variance measures the extent to which fee rates have generated savings. The quantity variance measures the extent to which fees have changed in line with the value of the assets on which they are based, therefore:

- the price variance is calculated as the fund value currently x (old fee rate – new fee rate)
- the quantity variance is calculated as the old fee rate x (old fund value – current fund value).

Worked examples are set out in Annex 3 and **should** be accompanied by a qualitative explanation (changes in price, volume, asset mix, etc) and presented in the context of changes in performance and risk.

I: PENSIONS ADMINISTRATION STRATEGY REPORT

Pension funds have discretion as to whether or not they prepare a pensions administration strategy. Where such a strategy is produced, Regulation 59 of The Local Government Pension Scheme Regulations 2013 (Regulation 57 in Scotland) specifies the matters to be included and under Regulation 57 (Regulation 55 in Scotland) the strategy **must** be published as part of the annual report.

The annual report **should** describe the significant service standards contained in any service level agreements with fund employers and report on whether or not these requirements are being met. Examples of service standards agreed with employers include, for example:

- the provision of named pensions contacts for the employer
- the provision of an employer discretions policy document
- the submission of statements of compliance regarding the administration of the scheme within the employer
- the timeliness of data submissions by the employer
- the timeliness of employer responses to fund queries.

The report **should** also set out any use of powers to seek compensation from employers in respect of any service standard breaches.

J: FUNDING STRATEGY STATEMENT

Since 2004, pension funds have been required to prepare, publish and maintain a funding strategy statement (FSS) under Regulation 58 of the LGPS Regulations 2013 (Regulation 56 in Scotland). The Regulation requires the pension fund to keep its FSS under review and to make such revisions as are appropriate following a material change either to its policy on matters covered by the statement or to the investment strategy statement (England and Wales) or statement of investment principles (Scotland). Guidance has been provided in the 2016 CIPFA publication [Preparing and Maintaining a Funding Strategy Statement](#).

It is possible, therefore, that more than one FSS may be published during the reporting period but, for the purposes of the annual report, the FSS as it stood at the end of the reporting period **must** be reproduced in full. The annual report **should** also direct the reader to where the previous version/s in force during the reporting period may be found.

K: INVESTMENT STRATEGY STATEMENT (ENGLAND AND WALES) OR STATEMENT OF INVESTMENT PRINCIPLES (SCOTLAND)

In England and Wales, MHCLG guidance published in September 2016 and July 2017 sets out the detailed requirements for LGPS to prepare, publish, and maintain both a funding strategy statement and an investment strategy statement, the latter replacing the statement of investment principles from 2017/18. The guidance requires that the investment strategy statement contains, among other things:

- the strategy and processes in place for managing investment risk
- allocation of investments across asset class
- approach to pooling and participation in national asset pools
- risk management arrangements
- social and environmental policies and corporate governance considerations
- the exercise of rights attached to investments.

In Scotland, Regulation 12 of the LGPS (Management and Investment of Funds)(Scotland) Regulations 2010 requires pension funds to prepare, maintain and publish a statement of investment principles (SIP). The SIP sets out the pension fund's principles for investing fund monies. In doing so it should:

- State the extent to which it complies with statutory guidance for producing the SIP, including any reasons for non-compliance. The CIPFA publication [Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom](#) (CIPFA, 2012) constitutes the relevant statutory guidance.
- Link with the investment policy and performance section of the annual report (Section B).
- Link with the financial instrument risk disclosures included in the pension fund accounts (Section F).

Current versions of the investment strategy statement (in England and Wales) or statement of investment principles (in Scotland) **must** be included in the pension fund annual report

L: COMMUNICATIONS POLICY STATEMENT

Pension funds are required to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. For England and Wales refer to Regulation 61 of the LGPS Regulations 2013 and for Scotland refer to Regulation 59 of the Scottish Regulations.

This policy statement **must** be included in the pension fund annual report. The report **should** also contain a commentary on how the fund has met the commitments set out in the communications policy statement including:

- how scheme information has been provided to members, their representatives and employers
- in what format and how frequently information has been provided
- what steps the fund has taken to promote scheme membership to prospective members.

M: EXTERNAL AUDIT OPINION

The external auditor's opinion on the pension fund's statement of accounts **must** be included in the annual report. For Welsh and Scottish pension funds this will be a standalone audit opinion, whereas in England it is likely to be a 'consistent with' opinion referring back to the certificate given on the administering authority's statement of accounts.

As LGPS currently do not make separate audit appointments, it will be the administering authority's appointed external auditor (currently one of the large accountancy firms) who carries out the audit work and issues the opinion.

There is no requirement to audit the pension fund annual report as a separate exercise, therefore the scope of the audit will primarily be restricted to the financial statements included in the annual report, rather than the content of the annual report overall. However, where audited accounts are published alongside other financial information, auditors have a responsibility to ensure that the audited and unaudited information being presented to the reader is internally consistent. In practice this means that:

- the external auditor will need to receive and review not just a set of financial statements but also a draft of the annual report before he/she can issue a separate opinion on the pension fund
- the auditor is likely to query any information reported in other sections of the annual report that appears to be materially inconsistent with the information contained in the accounts. Where information is different eg because sub-fund expenses have been added in to investment management costs in order to meet Transparency Code requirements, reconciliations between the two sets of figures should be prepared and made available for audit.

N: OTHER MATERIAL

Specific requirements

Scottish pension funds – management commentary

Local Government Finance Circular 1/2018 explains that pension accounts are a separate set of accounts of the administering authority for the purpose of the Local Authority Accounts Regulations 2014 (the Accounts Regulations). The Accounts Regulations require local authority annual accounts to include a management commentary and an annual governance statement.

Circular 1/2018 states that the pension fund annual report meets the requirements for a management commentary in respect of the pension fund.

Scottish and Welsh pension funds

As a stand-alone set of financial statements, to meet CIPFA Code of Practice requirements Scottish and Welsh annual reports **must** include the following:

- a statement of responsibilities for the statement of accounts
- member approval and publication dates
- an annual governance statement setting out how the pension fund complies with the CIPFA/SOLACE publication *Delivering Good Governance in Local Government Framework*.

Following either statutory requirements or best practice, annual governance reports are normally produced as the outcome of annual 'governance reviews' carried out by management which consider, among other things:

- the overall governance and risk management structures in place
- any changes made to these arrangements since last year
- how the organisation complies with the CIPFA/SOLACE publication *Delivering Good Governance in Local Government: Framework*
- assurance provided through internal audit work or third parties
- assurance reviews carried out by service managers.

In Scotland, Local Government Finance Circular 1/2018 advises that pension funds adopt one of the following two approaches:

- a single governance statement with two sections – the first section being the annual governance statement, and the second section being the governance compliance statement, or
- two separate statements – the first statement is to be the annual governance statement, followed immediately by the governance compliance statement.

At the date of publication, the Welsh Government was considering a similar approach for Welsh pension funds to follow.

Additional information

Although Regulation 57 of the LGPS Regulations 2013 and Regulation 55 of the Scottish Regulations prescribe what must be included in the pension fund annual report, pension funds are free to include other information as they see fit. For example, funds **may** wish to include:

- the statement of compliance with the CIPFA *Code of Practice on Public Sector Pensions Finance Knowledge and Skills*
- evidence to demonstrate compliance with the Code, such as a report on officer and member training undertaken during the year (if not reported elsewhere), skills and knowledge reviews undertaken, etc

- the role played by internal audit in providing assurance and managing risk, and a summary of assurance activity undertaken during the year (including any key points arising from such reviews or from the review of ISAE 3402 controls assurance reports)
- a summary of freedom of information requests
- a glossary of commonly used pension fund terms to aid readers.

ANNEX 1

Annual report checklist

Set out below is a summary of must, should and may disclosures for LGPS annual reports.

1	Scheme management and advisors	
	The report must list the names and contact details for:	YES NO N/A
1-1	■ the officers responsible for the fund	YES NO N/A
1-2	■ investment managers used by the fund	YES NO N/A
1-3	■ the fund custodian	YES NO N/A
1-4	■ AVC providers	YES NO N/A
1-5	■ the fund actuary	YES NO N/A
1-6	■ legal advisors	YES NO N/A
1-7	■ bankers to the fund	YES NO N/A
1-8	■ the external auditor	YES NO N/A
1-9	■ the scheme administrators	YES NO N/A
1-10	■ any independent advisors	YES NO N/A
2	Risk management	
	The report should explain:	YES NO N/A
2-1	■ how risk management is integrated within the governance structure	YES NO N/A
2-2	■ how risks are identified, managed and reviewed. This might for example include:	YES NO N/A
2-3	■ a summary of the key risks and what actions are being taken to mitigate those risks	YES NO N/A
2-4	■ how assurance is sought over third party operations, eg ISAE 3402 (f AAF 01/06) and SSAE16/70 reports	YES NO N/A
2-5	■ levels of assurance gained from internal audit work	YES NO N/A
2-6	■ how investment risk is managed.	YES NO N/A
3	Financial performance	
	The report must provide an overview of the fund's financial performance which includes:	YES NO N/A
3-1	■ current year performance against budget, highlighting and explaining any significant variances	YES NO N/A
3-2	■ a brief commentary on the movement in non-investment assets and liabilities (or a cross-reference to where this can be found in the financial statements)	YES NO N/A

		Yes/no/not applicable	Comments
3-3	<ul style="list-style-type: none"> Information about the level of contributions as a % of pensionable pay, the timeliness of receipt of contributions and whether the option to levy interest on overdue contributions has been exercised 	YES NO N/A	
3-4	<ul style="list-style-type: none"> forecast v outturn report on the pension fund cash flows 	YES NO N/A	
3-5	<ul style="list-style-type: none"> details of pension overpayments, recoveries and any amounts written off, including the results of participation in (NFI) exercises (data matches, overpayments identified, actions taken, etc). 	YES NO N/A	
The financial overview should also include:			
3-6	<ul style="list-style-type: none"> details of the net operational expenses of administering the fund, identifying as a minimum staff costs (both direct and internal recharges), premises, IT, supplies and services, costs of democracy and any other costs and income 	YES NO N/A	
3-7	<ul style="list-style-type: none"> details of benefits payable, transfers in and out, plus income from contributions from members and employers, showing a net inflow or outflow to the fund. 	YES NO N/A	
3-8	<ul style="list-style-type: none"> The financial overview may also include longer term forecasts of income, expenditure and cash flows. 	YES NO N/A	
4 Pension scheme administration			
The annual report must include the following:			
4-1	<ul style="list-style-type: none"> analysis of membership data (active, deferred pensioners and leavers) 	YES NO N/A	
4-2	<ul style="list-style-type: none"> a list of contributing employers analysed by admitted and scheduled bodies showing the value of contributions received from both employer and employees during the year 	YES NO N/A	
4-3	<ul style="list-style-type: none"> details of new pensioners analysed by ill health, early and normal retirements. 	YES NO N/A	
The annual report must include a description of key administration activities including:			
4-4	<ul style="list-style-type: none"> services provided to members, pensioners and employing bodies, together with an explanation of how these services are delivered 	YES NO N/A	
4-5	<ul style="list-style-type: none"> a statement on value for money 	YES NO N/A	
4-6	<ul style="list-style-type: none"> a summary of key performance data and qualitative information 	YES NO N/A	
4-7	<ul style="list-style-type: none"> a summary of key financial information and staffing levels. 	YES NO N/A	
Key performance data should include:			

		Yes/no/not applicable	Comments
4-8	■ caseload analysis	YES NO N/A	
4-9	■ accuracy of membership data	YES NO N/A	
4-10	■ the percentage of pensions transactions completed on time against targets	YES NO N/A	
4-11	■ satisfaction levels of employers and members	YES NO N/A	
4-12	■ numbers of complaints and complaints as a percentage of workload.	YES NO N/A	
	Financial indicators of administrative efficiency should include:	YES NO N/A	
4-13	■ unit costs per member	YES NO N/A	
4-14	■ benchmarking of unit costs against appropriate comparators.	YES NO N/A	
	Key staffing indicators should include:	YES NO N/A	
4-15	■ staff numbers and trends	YES NO N/A	
4-16	■ staff to fund-member ratios	YES NO N/A	
4-17	■ average cases per member of staff	YES NO N/A	
4-18	■ benchmarking of staffing levels against appropriate comparators.	YES NO N/A	
	A CIPFA working group has recommended that the following information is collected and the results should be summarised in the annual report.		
4-19	Time taken to process the following:		
	■ acknowledgement of death	YES NO N/A	
	■ death benefit and/or survivor pension	YES NO N/A	
	■ provide pension or CETV estimate	YES NO N/A	
	■ payment of lump sum retirement	YES NO N/A	
	■ calculate and notify deferred benefits	YES NO N/A	
	■ transfers in and out	YES NO N/A	
	■ calculate and pay a refund	YES NO N/A	
	■ send formal notification of joining.	YES NO N/A	
4-20	Actual time taken compared to legal requirements and internal target/SLA KPI.	YES NO N/A	
4-21	Numbers of each case type processed each year and outstanding at the year end.	YES NO N/A	
4-22	Average caseload per FTE.	YES NO N/A	
4-23	Satisfaction levels of employers and members.	YES NO N/A	
4-24	Administration, oversight and governance – unit costs per member.	YES NO N/A	
4-25	Staff to fund-member ratios.	YES NO N/A	

		Yes/no/not applicable	Comments
4-26	The annual report should summarise <ul style="list-style-type: none"> ■ helpdesk arrangements and information available to members and employees via websites, self-service options and other information sources 	YES NO N/A	
4-27	<ul style="list-style-type: none"> ■ contact details 	YES NO N/A	
4-28	<ul style="list-style-type: none"> ■ explanation of any outsourcing arrangements 	YES NO N/A	
4-29	<ul style="list-style-type: none"> ■ monitoring arrangements for gathering assurance over the effective and efficient operation of these operations. 	YES NO N/A	
This section may also contain:			
4-30	<ul style="list-style-type: none"> ■ an outline of the fund’s internal dispute resolution procedure, any new dispute cases arising during the year and how these have been resolved ■ contact details for the Pensions Advisory Service and the Pensions Ombudsman ■ information on how to access any policies or guidance produced by the LGPS for employing bodies or members. 	YES NO N/A	
5 Investment Policy and Performance Report			
5-1	The planned asset allocation must be stated along with the actual asset allocation for the financial year.	YES NO N/A	
5-2	Investment performance must be set out for each asset class and fund manager against the benchmarks set for one year, three years and five years.	YES NO N/A	
5-3	Pension funds may wish to explain any responsible investment policies and any environmental, social and governance policies along with voting arrangements and other initiatives such as engagement with companies and any collaborative ventures with other funds.	YES NO N/A	
5-4	The report may also: <ul style="list-style-type: none"> ■ outline the fund’s approach to the UK Stewardship Code 	YES NO N/A	
5-5	<ul style="list-style-type: none"> ■ list any bodies of which the fund is member, subscriber or signatory, such as NAPF, LAPFF, UKSIF, UNPRI, etc 	YES NO N/A	
5-6	<ul style="list-style-type: none"> ■ record how voting rights have been exercised 	YES NO N/A	
5-7	<ul style="list-style-type: none"> ■ explain what actions have been taken to pursue responsible investment aims 	YES NO N/A	
5-8	<ul style="list-style-type: none"> ■ explain actions taken to demonstrate compliance with the Myners principles or any other code of principles adopted. 	YES NO N/A	

		Yes/no/not applicable	Comments
5-9	This section of the report must also include details of investment administration and custody, describing who looks after which part of the portfolio if this has not already been reported elsewhere.	YES NO N/A	
6	Investment management costs		
6-1	Pension funds should take steps to identify fees and costs incurred by third parties which impact on overall return achieved, and explain these in the annual report.	YES NO N/A	
6-2	The annual report should help readers understand the relationship between costs, risks and return associated with the pension fund portfolio. Areas for consideration might include the costs and related returns from:		
	■ active v. passive portfolios	YES NO N/A	
	■ different asset classes including alternatives	YES NO N/A	
	■ pooled funds, layered funds and 'fund of fund' arrangements	YES NO N/A	
	■ different fund managers.	YES NO N/A	
6-3	The annual report should explain how the pension fund is responding to the Scheme Advisory Board's Transparency Code and what use is being made of information obtained from fund managers using the Scheme's template reports.	YES NO N/A	
7	Post pool reporting		
7-1	Investments analysis by fund manager must be split between assets transferred, and not yet transferred, to national pools.	YES NO N/A	
7-2	The annual report must include details of pool set up costs eg:		
	■ share purchase/subscription costs	YES NO N/A	
	■ other working capital provided eg loans	YES NO N/A	
	■ staff costs	YES NO N/A	
	■ accommodation costs	YES NO N/A	
	■ other services provided eg IT costs	YES NO N/A	
	■ transition fees and taxes	YES NO N/A	
	■ recruitment	YES NO N/A	
	■ legal	YES NO N/A	
	■ procurement.	YES NO N/A	
7-3	Details of set up costs should be presented alongside the total savings expected from pooling and the in-year and cumulative savings achieved to date.	YES NO N/A	

		Yes/no/not applicable	Comments
7-4	Analysis of ongoing investment management costs must be split between pooled and non-pooled assets	YES NO N/A	
7-5	To measure the extent to which pension funds have saved fees as a result of pooling, the annual report should include details of ongoing fee savings based on the price and quantity variance methodology set out in the Post Pooling Guidance report.	YES NO N/A	
7-6	Annual reports should compare gross and net investment yield for each class of asset, analysed between pooled and non-pooled investments and comparing actual return achieved during the year to the relevant passive return index (for quoted investments) or the local target return (for non-quoted investments).	YES NO N/A	
7-7	Where tables are used to provide the data in 7-2 to 7-6 above, the tables should be clearly explained.	YES NO N/A	
7-8	Narrative commentary should explain changes to investment costs in terms of: <ul style="list-style-type: none"> ■ change in the value of assets under management and how this is split between pooled and non-pooled investments ■ changes in investment strategies and asset allocations ■ changes implemented as a result of pooling, such as re-balancing of direct vs pooled investments, changes in the split of active and passive investments, renegotiated fund mandates, new fee structures (eg changes to ad valorem fees) or new suppliers ■ changes in the supplier market (eg regulation, competition, innovation) ■ exceptional costs, including costs of establishing pools and transitioning to them ■ increased transparency – changes in the way the information is presented ■ any other factors. 	YES NO N/A	
7-9	Annual reports must include: the name and contact details of the regional pool operator	YES NO N/A	
7-10	planned versus actual asset allocation – within the pool and otherwise. Annual reports should also include the following information relating to the regional asset pool:		
7-11	a summary of identified risks relating to pooling arrangements	YES NO N/A	

		Yes/no/not applicable	Comments
7-11	<ul style="list-style-type: none"> a copy or summary of the annual report from the asset pool oversight committee 	YES NO N/A	
	The pension fund may also wish to disclose:		
7-12	<ul style="list-style-type: none"> how the pension fund and pool operator respectively are exercising voting rights and taking action to pursue responsible investment commitments 	YES NO N/A	
7-13	<ul style="list-style-type: none"> what action the pool operator is taking to demonstrate compliance with the Myners principles 	YES NO N/A	
7-14	<ul style="list-style-type: none"> information relating to knowledge and skills and training relevant to asset pooling. 	YES NO N/A	
8	Actuarial report	YES NO N/A	
8-1	The annual report must include a statement by the actuary setting out the pension fund's overall level of funding as reported at the last triennial valuation.	YES NO N/A	
	It should also include:		
8-2	<ul style="list-style-type: none"> a summary of the last triennial valuation report and details of where the full version of the actuarial report can be obtained. 	YES NO N/A	
8-3	In addition the pension fund may wish to disclose: <ul style="list-style-type: none"> the results of any interim valuations 	YES NO N/A	
8-4	<ul style="list-style-type: none"> where such monitoring is undertaken, the results of any monitoring of key variables such as longevity experience, ill health retirements and use of discretionary powers impacting on the fund's solvency. 	YES NO N/A	
9	Governance policy and compliance statement		
	Regulation 31 of the Administration Regulations 2008 (Regulation 55 of The Local Government Pension Scheme Regulations 2013) (Regulation 27 in Scotland) prescribes the content of this statement which must be included in the annual report.		
	This section of the annual report should also include:		
9-1	An outline of the overall governance structure for the pension fund and the roles and responsibilities of each element within the structure (including whether the element is executive or advisory)	YES NO N/A	
9-2	Terms of reference for the pensions committee (or equivalent), local pensions board and related sub-committees or advisory panels	YES NO N/A	
9-3	Membership of each panel/committee during the year with a matrix showing for each member:	YES NO N/A	
9-4	<ul style="list-style-type: none"> voting rights 	YES NO N/A	

		Yes/no/not applicable	Comments
9-5	<ul style="list-style-type: none"> ■ attendance at meetings 	YES NO N/A	
9-6	<ul style="list-style-type: none"> ■ training received during the reporting period. 	YES NO N/A	
9-7	Policy and processes for managing any conflicts of interest.	YES NO N/A	
9-8	The annual report from the local pension board.	YES NO N/A	
9-9	<p>Annual reports should include some form of commentary to illustrate how governance works in everyday terms for the reader. This may include, for example:</p> <ul style="list-style-type: none"> ■ explanations of how codes of conduct operate in practice ■ how the CIPFA Knowledge and Skills Framework has been applied ■ details of training offered and take-up (training is mandatory for local pension board members but not for a pensions committee). 	YES NO N/A	
9-10	how the fund and pool operator are meeting the requirements of the CIPFA/SOLACE <i>Good Governance Framework</i> .	YES NO N/A	
10	Financial statements		
10-1	The annual report must include the fund's full financial statements ie the fund account, net asset statement and disclosure notes.	YES NO N/A	
10-2	The annual report must also contain a copy of the external auditor's opinion on these accounts.	YES NO N/A	
11	Dealings with employing bodies		
11-1	<p>The annual report must include a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities). The data should be shown in tabular format.</p> <p>The annual report should set out the arrangements for dealing with employer bodies. Examples may include:</p>	YES NO N/A	
11-2	<ul style="list-style-type: none"> ■ service standards set and agreed between the fund and each employer 	YES NO N/A	
11-3	<ul style="list-style-type: none"> ■ the provision of named pensions contacts for the employer 	YES NO N/A	
11-4	<ul style="list-style-type: none"> ■ an employer discretions policy document 	YES NO N/A	
11-5	<ul style="list-style-type: none"> ■ a new admissions policy 	YES NO N/A	
11-6	<ul style="list-style-type: none"> ■ pensions advice for employers entering into outsourcing/TUPE arrangements 	YES NO N/A	

		Yes/no/not applicable	Comments
11-7	■ requirement for annual statements of compliance regarding the administration of the scheme by each employer	YES NO N/A	
11-8	■ the timeliness of data submissions by the employer	YES NO N/A	
11-9	■ the timeliness of employer responses to fund queries.	YES NO N/A	
11-10	The report should set out any use of powers to seek compensation from employers in respect of any service standard breaches.	YES NO N/A	
12	Communications Policy Statement		
12-1	For English and Welsh pension funds, Regulation 61 of the Administration Regulations requires them to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. This must be included in the annual report	YES NO N/A	
13	Funding strategy statement		
13-1	Pension funds are required to prepare, publish and maintain funding strategy statements (FSS) under Regulation 58 of The Local Government Pension Scheme Regulations 2013) (Regulation 31 in Scotland). For the purposes of the pension fund annual report, the statement as it stood at the end of the reporting period must be reproduced in full.	YES NO N/A	
	This section of the report should also include a commentary on matters relating to the implementation and application of the funding strategy statement during the period, such as:		
13-2	■ implementation of any contribution increases	YES NO N/A	
13-3	■ management of admitted bodies	YES NO N/A	
13-4	■ any bonds or any other secured funding arrangements entered into.	YES NO N/A	
13-5	Links between the FSS and ISS should be set out in the annual report	YES NO N/A	
14	Investment strategy statement		
14-1	Pension funds are required to prepare, maintain and publish an investment strategy statement (ISS), which replaced the previous statement of investment principles (SIP) in 2016/17. The annual report must include the current version of the ISS.	YES NO N/A	
14-2	The Annual report should set out the extent to which the ISS and FSS meet statutory guidance and explain the reasons for any areas of non-compliance identified.	YES NO N/A	

		Yes/no/not applicable	Comments
14-3	The ISS should explain how the pension fund intends to transition funds to the regional asset pool, setting out expected timings, mandates affected etc.	YES NO N/A	
15	Other material		
	For example, funds may wish to include:		
15-1	<ul style="list-style-type: none"> the statement of compliance with the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills 	YES NO N/A	
15-2	<ul style="list-style-type: none"> evidence to demonstrate compliance with the code of practice, reports on officer and member training undertaken during the year (if not reported elsewhere), skills and knowledge reviews, planned training events etc 	YES NO N/A	
15-3	<ul style="list-style-type: none"> the role played by internal audit in providing assurance and managing risk, and a summary of assurance activity undertaken during the year 	YES NO N/A	
15-4	<ul style="list-style-type: none"> other policy documents or strategies in place or under development 	YES NO N/A	
15-5	<ul style="list-style-type: none"> a commentary on how employer discretions have been exercised in the reporting period 	YES NO N/A	
15-6	<ul style="list-style-type: none"> a glossary of commonly used pension fund terms to aid readers. 	YES NO N/A	
15-7	Chairman's report.	YES NO N/A	
16	Requirements for Welsh and Scottish LGPS only		
	The annual reports must include:	YES NO N/A	
16-1	a statement of responsibilities	YES NO N/A	
16-2	approval and issue dates	YES NO N/A	
16-3	an annual governance report, based on:	YES NO N/A	
	<ul style="list-style-type: none"> compliance with CIPFA/SOLACE framework 	YES NO N/A	
	<ul style="list-style-type: none"> outcomes from internal audit coverage/head of internal audit assurance report 	YES NO N/A	
	<ul style="list-style-type: none"> third party assurance reports. 	YES NO N/A	
	Must be included for Scottish pension funds only		
16-4	A management commentary	YES NO N/A	

ANNEX 2

Scheme administration

A working party set up by CIPFA during 2018 is aiming to develop a process whereby scheme administration data can be captured on a consistent basis and shared between funds. The group has suggested that as a first step the following information is captured and reported:

Table 1: Key performance information

Process	No. cases outstanding at start of the period	No. cases commenced in year	No. cases completed in year	No. cases outstanding at year end	% completed in year
Deaths – Initial letter acknowledgement death of active/deferred/pensioner member					
Deaths – Letter notifying amount of dependant’s benefit					
Retirements – Letter notifying estimate of retirement benefits (include all retirement types: normal, ill heath, early, late etc)	Active				
	Deferred				
	Total				
Retirements – Letter notifying actual retirement benefits (include all retirement types: normal, ill heath, early, late etc)	Active				
	Deferred				
	Total				
Retirements – process and pay lump sum retirement grant (include all retirement types: normal, ill heath, early, late etc)	Active				
	Deferred				
	Total				
Deferment – calculate and notify deferred benefits					

Process	No. cases outstanding at start of the period	No. cases commenced in year	No. cases completed in year	No. cases outstanding at year end	% completed in year
Transfers in – Letter detailing transfer <i>in</i> quote					
Transfers in – Letter detailing transfer <i>in</i>					
Transfers out – Letter detailing transfer <i>out</i> quote					
Transfers out – Letter detailing transfer <i>out</i>					
Refund – Process and pay a refund					
Divorce quote – Letter detailing cash equivalent value and other benefits					
Divorce settlement – Letter detailing implementation of cash equivalent value and application of pension sharing order					
Member estimates/projections					
Joiners – Send notification of joining the LGPS to scheme member					
Aggregation – Send notification of aggregation options					

Table 2: Key performance indicators

Process	Fund KPI's	%	No. cases completed within KPI	Legal Requirement (from notification)	%	No.
Deaths – Initial letter acknowledgement death of active/deferred/pensioner member	5 days			2 months		
Deaths – Letter notifying amount of dependant's benefit	10 days			2 months		
Retirements – Letter notifying estimate of retirement benefits (include all retirement types: normal, ill heath, early, late etc)	Active	15 days		2 months		
	Deferred					
	Total (if not separated)					
Retirements – Letter notifying actual retirement benefits (include all retirement types: normal, ill heath, early, late etc)	Active	15 days		2 months		
	Deferred					
	Total (if not separated)					
Retirements – process and pay lump sum retirement grant (include all retirement types: normal, ill heath, early, late etc)	Active	15 days		2 months		
	Deferred					
	Total (if not separated)					
Deferred into pay – process and pay lump sum retirement grant	15 days			2 months		
Deferral – Calculate and notify deferred benefits	30 days			2 months		
Transfers in – Letter detailing transfer <i>in</i> quote	10 days			2 months		
Transfers out – Letter detailing transfer <i>out</i> quote	10 days			2 months		
Refund – Process and pay a refund	10 days			2 months		
Divorce quote – Letter detailing cash equivalent value and other benefits	45 days			3 months		
Divorce settlement – Letter detailing implementation of cash equivalent value and application of pension sharing order	15 days			3 months		
Joiners – Send notification of joining the LGPS to scheme member	40 days			2 months		

CIPFA is updating the Pension Administration Benchmarking Club return to reflect the indicators shown above and this will include further guidance on how to obtain these figures although further work in this area is anticipated, including working with system providers to develop reporting directly from system information.

Table 3: Unit cost per member

Process	2013/14	2014/15	2015/16	2016/17	2017/18
Investment management expenses					
Total cost (£'000)					
Total membership (no.)					
Sub cost per member (£)					
Administration costs					
Total cost (£'000)					
Total membership (no.)					
Sub cost per member (£)					
Oversight and governance costs					
Total cost (£'000)					
Total membership (no.)					
Sub cost per member (£)					
Total cost per member (£)					

This information could also be shown as a chart or graph which may accentuate the movements between years more easily.

ANNEX 3

Post pool reporting

TECHNIQUES TO CALCULATE SAVINGS FROM ASSET POOLING

Variance analysis – worked example A – ad valorem fees

Calculating price and quantity variances for an asset portfolio transferred to an asset pool at 1/10/16, as at 31/3/18

Value of assets at 1/10/16	£112m
ad valorem fee rate	55bp per £1m
Value of assets at 31/3/18	£156m
ad valorem fee rate	50bp per £1m on first £100m
	45bp per £1m on next £30m
Fund	40bp per £1m on next £30m

Price variance

Current fund value at old rate	£156m x £0.0055 =	£858,000
Current value at new fee rate	£100m x £0.0050 =	£500,000
	£30m x £0.0045 =	£135,000
	£26m x £0.0040 =	£104,000
		£739,000

PRICE VARIANCE

£119,000

Quantity variance

Old rate x (old fund value – new fund value) = £0.0055 x (£112m – £156m)

QUANTITY VARIANCE

(£242,000)

Total variance

TOTAL VARIANCE Old fees – new fees = £616,000 – £739,000 = (£123,000)

Variance analysis – worked example B – performance related fees

Calculating price and quantity variances for an asset portfolio transferred to an asset pool at 1/10/16, as at 31/3/18

Value of assets at 1/10/16	£112m
ad valorem fee rate	55bp per £1m
Value of assets at 31/3/18	£156m
ad valorem fee rate	50bp per £1m on first £100m
	45bp per £1m on next £30m
Fund	40bp per £1m on next £30m

Price variance

Current fund value at old rate	£156m x 0.0055 =	£858,000
Current value at new fee rate	£100m x 0.0050 =	£500,000
	£30m x 0.0045 =	£135,000
	£26m x 0.0040 =	£104,000
Performance fee		£641,143
		£1,380,143
PRICE VARIANCE		(£522,143)

Quantity variance

Old rate x (old fund value – new fund value) =	£0.0055 x (£112m – £156m)
QUANTITY VARIANCE	(£242,000)

Total variance

TOTAL VARIANCE	Old fees – new fees =	£616,000 – £739,000 =	(£764,143)
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Note that in the above example:

- a performance fee is payable of 20%
- the performance fee is subject to a ‘hurdle’ of 4% over the benchmark index
- the performance fee is subject to a high water mark clause.

Frequently asked questions

Question 1

Q: Where we have received consultancy advice for a project, where would the cost be disclosed?

A: As part of set up costs if this relates to new pooling arrangements. Otherwise as part of administration expenses.

Question 2

Q: What are indirect costs? Can CIPFA provide examples?

A: These would include, for example, overhead costs incurred by the administering authority or the pool in respect of senior management time, accommodation or support services recharged on a % of time/floor area basis as opposed to being directly linked to pension fund activities.

Question 3

Q: Will there be any changes to the example accounts as a result of these disclosures?

A: The only change is that the analysis of investments by manager will now be split between pooled and non-pooled investments; see [example LGPS accounts for 2018/19](#).

Question 4

Q: How will we show that the tables in the annual report reconcile to the notes in the accounts? If there are no changes in the example accounts are we expected to show a reconciliation?

A: Reconciliations should be prepared where the figures are different as external audit will need to check consistency between figures reported in the accounts and figures reported elsewhere in the annual report before they can issue a 'consistent with' opinion on the annual report. There is no requirement to include these reconciliations in either the annual report or the accounts – however, to assist the reader, a short explanation should be provided below each table in the annual report to explain what the key differences are.

Question 5

Q: Clarification on asset allocation and yield table – should there be sub-totals for the active and passive pooled investment vehicles?

A: The published guidance does not include sub-totals as a requirement but you could certainly add them if it makes the table clearer in your local circumstances.

Question 6

Q: How should we present pooling savings?

A: Via (1) the variance analysis which is the suggested method for calculating savings, and (2) comparison between savings achieved and set up costs.

Question 7

Q: Are the contractual costs within the pool direct or indirect costs?

A: Usually these would be direct costs but see comments above.

Question 8

Q: Will we be expected to include any of the pooled tables in the pension fund section of the parent county council's accounts?

A: Only the analysis of investments by manager, see above.

Question 9

Q: Tables seem more suited to pools that have built their own operator as opposed to pools that procure and rent. Our pool has mostly transition costs as opposed to set up costs.

A: Inevitably some pools will have higher set up costs and lower transition costs whereas other pools will have the reverse depending on the structures and operating models they adopt. Put the costs where you feel they best fit and include a footnote to the table explaining what has been done and why. It may be that some costs from a single advisor, consultant or fund manager need allocating between different categories in the tables depending on what they are actually doing or have done.

Question 10

Q: Will we be provided with an example of how these tables tie in to the accounts?

A: The figures included in the table on set up costs and transitioning should be identified from all three categories of expenditure included in the management expenses total in the fund account, but individual components will need to be identified and re-analysed. This table is also cumulative as it expected these costs to be incurred over a number of years. The table for ongoing investment costs should reconcile back to the IME line in the fund account and the asset allocations and performance table should reconcile back to the net return on investments (total yield) and analysis of investments by manager (total opening and closing values).

Question 11

Q: Set up costs – should staff costs include support provided by pension fund staff to the pool (ie ad-hoc support)?

A: Yes.

Question 12

Q: Asset allocation and performance table – where should private equity be reported?

A: Private equity is described as unlisted equity in this table.

Question 13

Q: Variance analysis – we are likely to be in the situation where we are joining a pooled fund asset portfolio we didn't have before. How do we show the variance analysis as we will not have an old rate to compare to the new rate? In this situation are we able to use the asset portfolio's standard quoted fee rate (eg 60bp) and compare it to the negotiated pool fee rate (eg 50bp)?

A: Yes, just include a footnote explaining which approach has been adopted and why.



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Agenda Item

Subject	LGPS Investments Consultation Update	Status	For Publication
Report to	Local Pension Board	Date	9 th November 2023
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	Phone	01226 666439
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1 Purpose of the Report

- 1.1 To provide members of the Board with an update on the Government's consultation on LGPS investments discussed at the last meeting.

2 Recommendations

- 2.1 Members are recommended to:
- a. **Note the contents of this report.**

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.

Clearly changes in the way in which the Authority's investments are managed is likely to impact (either positively or negatively) on objectives concerned with the delivery of the required investment returns and also potentially on the Authority's ability to invest responsibly.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report have implications for the potential ability of the Authority to mitigate the various investment related risks included in the Corporate Risk Register.

5 Background and Options

- 5.1 At its last meeting the Board considered as part of the Regulatory and Policy update the Government's consultation on LGPS investment matters, subsequently a draft response was circulated to the Chair and Vice Chair as part of the process of preparing the Authority's response which was agreed at its September meeting and is at Appendix A.
- 5.2 The consultation process has generated significant discussion and debate within the LGPS community and the SYPA response has much in common with the Border to Coast Joint Committee's response which is available [here](#).
- 5.3 More widely the debate around the consultation has concentrated on a relatively small number of key issues:
- The general undesirability of asset allocation decisions being dictated by government's policy priorities.
 - The difficulty of delivering complete transition of listed assets in the timescale suggested in the consultation.
 - The instability in the wider eco-system caused by the Government's desire to see a reduction in the number of pools from the current 8.
- 5.4 The Scheme Advisory Board has produced a response to the Consultation which is available [here](#). This response as a result of the Board having to represent the broad range of views across the Scheme provides a good summary of the range of views and the potential areas of contention.
- 5.5 It is expected that the Chancellor will include some form of response to the Consultation in his Autumn Statement which is due later in November. However, given the scale of the response it seems unlikely that a detailed response addressing all the issues raised will be available at this point. Enacting any of the reforms proposed will require both amendments to the LGPS Investment Regulations and the production of new statutory guidance. Both processes require further formal consultation as well as a considerable period and informal consultation in order to produce them. It is therefore unlikely that any new requirements will be enacted before mid to late 2024 at the earliest.

6 **Implications**

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

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

George Graham

Director

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

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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.

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.

Our response starts from the fundamental principle that the money which the Authority manages is not public money but the accumulated savings of our 176,000 members and therefore the best interests of those members rather than any political objective must predominate in our investment decision making.

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 research¹ 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 publication² 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 investments³", 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".

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.

² [A Case For Scale February 2022](#)

³ <https://publications.parliament.uk/pa/cm200809/cmselect/cmcomloc/164/164i.pdf>

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.

Question 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.

Question 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.

**Question 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, which we feel fails to recognise the fact that different funds will have different approaches to achieving their funding goal, some being prepared to accept significantly more volatility within their strategic asset allocation than others. Thus a single simplistic performance benchmark for each asset class where some mandates are targeting higher returns than others will be comparing apples and pears and be overly simplistic.

There is a danger in this proposal 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 through the Scheme Advisory Board).

Question 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.

Question 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).

Question 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.

Question 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.

Question 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 and of the impacts that investments of this sort can achieve.

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.

Question 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 report⁴ 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>

Question 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:

George Graham

Director

South Yorkshire Pensions Authority

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E mail: ggraham@sypa.org.uk

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Agenda Item

Subject	Investment Process - Update	Status	For Publication
Report to	Local Pension Board	Date	9 th November 2023
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	Phone	01226 66439
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

- 1.1 To provide the Board with an update on the way in which the Authority's investment process operates.
-

2 Recommendations

- 2.1 Members are recommended to:
- a. Note the contents of this report and consider whether there are any issues that they would wish to raise with the Authority.**
-

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.

The effectiveness of the Authority's investment process is clearly key to the successful delivery of the overall mission of delivering an affordable and sustainable pension scheme.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report have implications for the various investment risks and the risks around the control environment included in the Corporate Risk Register.

5 Background and Options

- 5.1 The Board has asked for information on the way in which the Authority's investment process works to gain assurance over this aspect of the organisation's operation. This report provides a brief overview of the process.
- 5.2 The investment process starts with the investment strategy which determines what proportion of the Fund's assets should be allocated to each asset class (equities, bonds etc.) to give the best probability of sustainably achieving the required return to deliver or maintain full funding. This process requires the use of complex modelling using several thousand scenarios to deliver a robust analysis. Given the complexity of this work the Investment Advisory Panel (the Director, Assistant Director – Investment Strategy and Independent Advisers) are assisted by an investment consultant. The Strategy is reviewed every three years taking account of the results of the actuarial valuation and Border to Coast are engaged in the process to ensure that the proposed strategic asset allocation is capable of being delivered through the products available from the pool.
- 5.3 Once the Strategic Asset Allocation is set the Authority's Investment Strategy Team are responsible for implementing it. This will involve:
- Allocating the right amounts to each of the Border to Coast products and determining the appropriate level of commitments to each of the Alternatives products (Private Debt, Private Equity Infrastructure, Climate Opportunities, UK Opportunities) to ensure that these asset classes are maintained at the appropriate level within the Fund. This includes identifying the levels of income required to meet benefits each quarter and also whether commitments are to be made through the pool or in a small number of cases through direct investment (for example as part of the Place Based Impact strategy).
 - Where market movements result in the value of an individual allocation (for example equities) moving outside of the agreed range within the Strategic Asset Allocation undertaking "rebalancing" which involves selling assets which are overweight relative to the Strategic Asset Allocation and buying those which are underweight. This is only really practical for listed assets such as equities and bonds which are liquid, illiquid assets such as property and alternatives are more difficult to rebalance particularly when they are overweight relative to their benchmark.
 - For the relatively small number of investments which are not made through the Pool conducting limited market surveys and due diligence to identify particular products which might be invested in. So a member of the investment team might research a range of specialist housing funds (identified through approaches to the Authority, ongoing discussion with fund managers and discussion with other LGPS Funds) which might meet the Authority's requirements in this area. From a high-level review discussion with the Director or Assistant Director – Investment Strategy will identify a smaller number of funds for detailed consideration. This results in a detailed due diligence paper which examines the specifics of each fund being considered including the nature of the investment opportunity and associated risks, the strength of the team and their track record and the approach to ESG issues. This is then reviewed and challenged by the Director or Assistant Director – Investment Strategy and a decision made as to whether or not to invest,

- 5.4 Once any investment has been made its performance needs to be monitored through an oversight process. This process differs between investments made through Border to Coast and those made directly or in the various legacy portfolios. This reflects the fact that so much of the Fund is invested in Border to Coast products and also the fact that with the exception of the commercial property portfolio the other legacy investments are individually relatively small in the context of the whole portfolio.
- 5.5 For investments made through Border to Coast the process is more structured and has recently been developed further to provide a more robust record of the process and any action taken. Border to Coast provide monthly factsheets for each ACS sub fund as well as more detailed quarterly reports which also include ESG reports for individual sub funds. In addition each quarter a number investor calls are held and portfolio managers responsible for individual sub funds make detailed presentations on the performance of the individual sub funds and the alternatives programme. These calls are open to officers and independent advisers and are attended by members of the investment team. The recently added element to this process is the addition of a standardised quarterly review of the performance of each fund against a range of characteristics (such as whether it is performing in line with the agreed risk tolerance). This will be reported in traffic light form and will go through a challenge process within the investment strategy team prior to sharing with the Independent advisers and being discussed at the regular meetings of the Investment Advisory Panel. The accumulated knowledge generated is fed into the annual review discussion which takes place between the Panel and Border to Coast each June and which results in the report which is considered in the confidential section of today's agenda.
- 5.6 For other investments except for the commercial property portfolio where a quarterly review meeting between the fund manager and the Authority takes place a lighter touch is used reflecting the sheer number (around 150) of individual investments. The focus is very much on investments in their investment and management phases and less on those in the realisation phase. In general the process is conducted through review of managers' quarterly reports with follow up with the manager if any issues are apparent. Where possible annual investor meetings will be attended but given the number of funds this is in a minority of cases and the focus is always on the larger investments. In general the Authority does not take up seats on fund advisory committees which tend to be available for larger investors, although we have recently done so for a renewable energy fund where both SYPA and Border to Coast are investing with the Fund Manager so there is a wider benefit to the Partnership from this. The results of this work are fed into the regular investment reports to the Authority and if there are particular issues with an individual fund it would be discussed at an Investment Advisory Panel meeting as the two independent advisers have a depth of knowledge of private markets which can be helpful in understanding how to deal with any issues which are beyond the experience of the team.
- 5.7 The overall investment process has evolved since the institution of pooling in 2018 and continues to do so. The work currently being undertaken is designed to make sure that the process is robust and less dependent on any single individual in what is a very small team and the Board are invited to comment on the process.

6 Implications

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

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

George Graham

Director

Background Papers	
Document	Place of Inspection



Subject	Decisions Taken Between Meetings of the Authority	Status	For Publication
Report to	Local Pension Board	Date	09 November 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 update LPB on the decisions reported to the most recent Authority that were taken as a matter of urgency between Authority meetings.
-

2 **Recommendations**

- 2.1 Members are recommended to:
- a. **Note the update of decisions taken.**
-

3 **Link to Corporate Objectives**

- 3.1 This report links to the delivery of the following corporate objectives:
Effective and Transparent Governance

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

4 **Implications for the Corporate Risk Register**

- 4.1 The decision taken relates to the identified risks around the ability of Border to Coast to deliver effectively.

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, then published on the Authority's website and reported to the next Authority meeting for transparency. They are also noted in this report for information for the Local Pension Board.
- 5.2 There was one urgent decision taken and reported to the September Authority meeting as follows.

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 Limited. SYPA were therefore requested to vote on the following resolutions:

- 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 Consultation was undertaken with the Chair and the Director who were supportive of the 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 by the company in setting the Border to Coast Limited 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	



Subject	Risk Register Update	Status	For Publication
Report to	Local Pension Board	Date	09 November 2023
Report of	Director		
Equality Impact Assessment	Not Required	Attached	Na
Contact Officer	Annie Palmer Team Leader Governance	Phone	01226 666404
E Mail	apalmer@sypa.org.uk		

1 **Purpose of the Report**

- 1.1 To provide members of the Board with the opportunity to review the updated risk register which supports the corporate strategy.
-

2 **Recommendations**

- 2.1 Members are recommended to:
- a. Note and comment upon the revised risk register.**
-

3 **Link to Corporate Objectives**

- 3.1 This report links to the delivery of all the corporate objectives because the corporate risk register is focussed on assessing and managing the range of risks to the organisation in meeting any of these objectives.

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

Listening to our stakeholders

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

Investment Returns

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

Responsible Investment

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

Scheme Funding

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

Effective and Transparent Governance

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

Valuing and engaging our Employees

To ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report address the entirety of the risk landscape facing the Authority.

5 Background and Options

- 5.1 The Board's workplan requires it to regularly review the Authority's Corporate Risk Register. The latest version of the Register, which was considered by the Authority at its meeting on 7 September 2023, is at Appendix A.

Commentary is provided within Appendix A that outlines details relating to each risk, setting out the mitigations currently in place, and the results of the latest review including the reasoning, where relevant, for not changing the scores. The following changes were made to risk scores at the latest full review.

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.

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.

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.

- 5.2 The implementation of the new *Pentana* risk management software system is progressing well and the final upload of the strategic risk register and associated actions, each linking to key corporate objectives, will be completed by the end of November.
- 5.3 The Board are asked to review the Risk Register and in particular to consider whether any significant areas of risk are not captured.

6 Implications

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

Financial	None directly from this report but mitigation of individual risks will have implications.
Human Resources	None directly from this report but mitigation of individual risks will have implications.
ICT	None directly from this report but mitigation of individual risks will have implications.
Legal	None directly from this report but mitigation of individual risks will have implications.
Procurement	None directly from this report but mitigation of individual risks will have implications.

George Graham

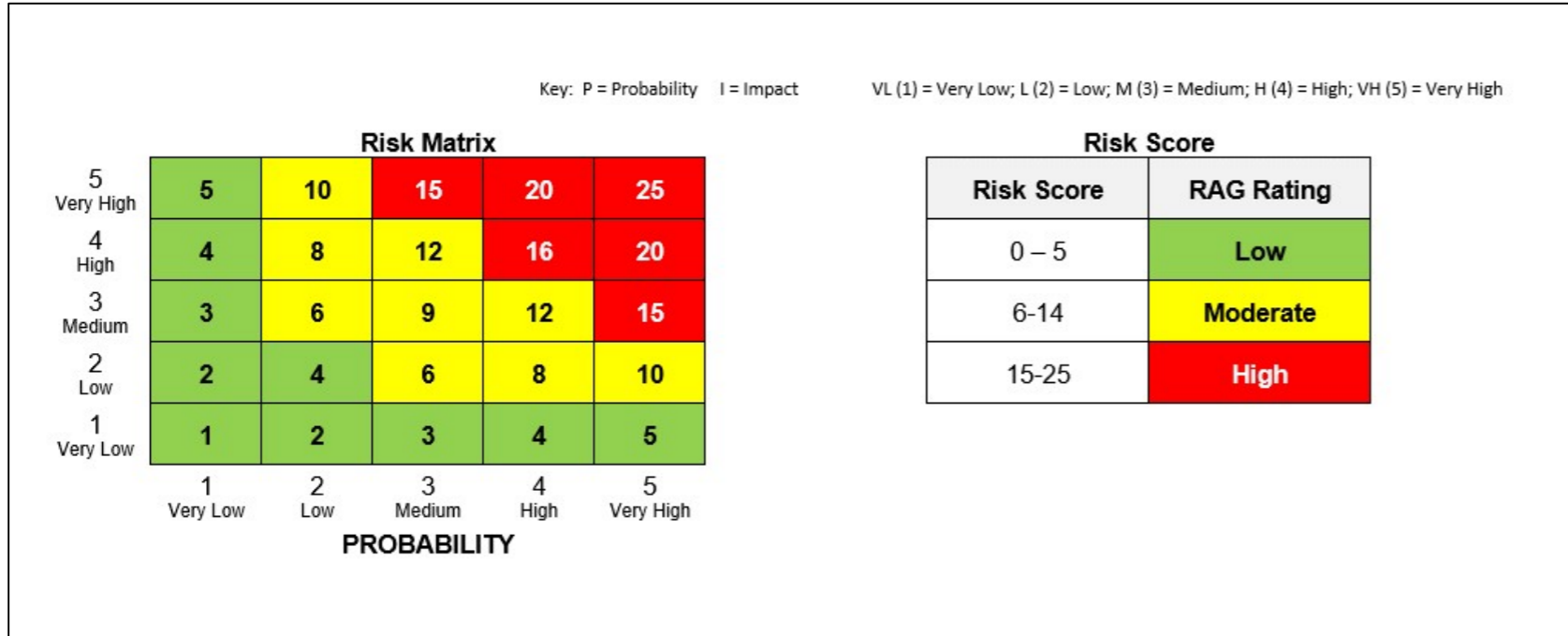
Director

Background Papers	
Document	Place of Inspection
None	N/A

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**South Yorkshire Pensions Authority Risk Register As At
21 August 2023**

Key:



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Risk scores changed since last review:


Risk No	Risk Type	Risk Title	Prev Score	New Score	Risk Change at Review
06	Operational	Mismatch of resources and workload in pensions administration resulting in backlogs	N/A	20	
05	Operational	Change to the CARE Revaluation date to bring it in line with the tax year	16	4	


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. <i>Comment 21/08/2023 :</i> <i>The current position is that 11 out of 12 Authority members are fully compliant, including the new Chair of the Authority.</i> <i>Members of SMT are delivering an additional layer of individual induction sessions on 23 August to new members.</i> <i>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.</i> <i>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.</i>	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. <i>Comment 21/08/2023:</i> <i>Members of SMT are delivering an additional layer of four departmental/service specific induction sessions on 23 August to new members.</i> <i>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.</i> <i>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.</i>	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. <i>Comment 21/08/2023:</i> <i>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.</i> <i>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.</i>	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. <i>Comment 21/08/2023:</i> <i>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.</i> <i>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.</i> <i>The above mitigations justify keeping the score at the same level at this review.</i>	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. <i>Comment 21/08/2023:</i> <i>.The position remains the same with no material changes, there is no justification to amend the score.</i>	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
12	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. <i>Comment 21/08/2023:</i> 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
13	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. <i>Comment 21/08/2023:</i> The implementation of the plan is ongoing however there are no major changes and no justification to reduce the score.	Director		21/08/2023
14	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. <i>Comment 21/08/2023:</i> 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
15	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. <i>Comment 21/08/2023:</i> 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
01	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 <i>Comment 21/08/2023:</i> 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
02	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 <i>Comment 21/08/2023:</i> 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
03	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. <i>Comment 21/08/2023:</i> 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
04	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. <i>Comment 21/08/2023:</i> 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
05	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. <i>Comment 21/08/2023:</i> 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. <i>Comment 21/08/2023:</i> 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 <i>Comment 21/08/2023:</i> 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

Agenda Item

Subject	Local Pension Board Budget 2024/25	Status	For Publication
Report to	Local Pension Board	Date	9 November 2023
Report of	Director and Chief Finance Officer		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Gillian Taberner AD – Resources & Chief Finance Officer	Phone	01226 666420
E Mail	gtaberner@sypa.org.uk		

1 Purpose of the Report

- 1.1 To receive the Board’s proposed budget for 2024/25 and provide any comments prior to recommending the draft budget to the Authority for approval as part of the overall budget.

2 Recommendations

- 2.1 Members are recommended to:
- a. **Receive and comment on the proposed 2024/25 LPB budget of £38,200.**
 - b. **Recommend the draft LPB budget to the Authority for its approval as part of the Authority’s overall budget.**

3 Link to Corporate Objectives

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

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

Resourcing the Board to effectively carry out its role will allow it to contribute to ensuring that services are designed and delivered with customers in mind.

Effective and Transparent Governance

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

One of the benchmarks of effective governance is a transparent budget process of which this report forms a part.

4 Implications for the Corporate Risk Register

4.1 The budget proposals outlined in this report contribute to addressing the risks identified in the Corporate Risks Register associated with the effective operation of the Board. They do not, however, eliminate such risks which will depend on the way in which Board members fulfil the obligations placed on them through membership of the Board.

5 Background and Options

5.1 This report sets out the proposed Local Pension Board Budget for 2024/25.

5.2 The table below sets out the current forecast budget outturn for 2023/24 and the proposed budget for 2024/25.

Expenditure Item	2022/23 Actual Outturn	2023/24 Budget £	2023/24 Q2 Forecast Outturn £	2023/24 Q2 Forecast Variance £	2024/25 Proposed Budget £
Independent Adviser	8,160	8,530	9,000	470	9,800
Catering, Printing, etc.	250	300	700	400	700
Member travel expenses (Meetings)	90	300	1,000	700	1,000
Training and associated travel and subsistence	9,100	6,000	7,500	1,500	8,000
LPB Member Allowances	0	0	13,550	13,550	18,700
Total	17,600	15,130	31,750	16,620	38,200

5.3 The current year budget for the Board is currently forecast to be overspent by a total of £16,620; however the majority of this, £13,550, relates to the forecast cost in the current year of the new member allowances for Board members. The introduction of these allowances was approved by the Authority in June 2023 after the budget for the year had been set. This current year cost will be met from reserves in this year and will be built into the budget from 2024/25 onwards.

5.4 The remaining forecast overspend of just over £3,000 in the current year is due to the following:

a. Additional expenditure of £1,500 on training and development above the expectations when the budget was set at November 2022. As the Board are aware, ensuring appropriate and sufficient member learning and development is a priority. The training expenditure in the current financial year includes costs for:

- i. the Board's share of the cost of the Hymans Robertson LGPS Online Learning Academy (LOLA),
- ii. participation in the National Knowledge Assessment,

- iii. the bespoke session on Scrutiny delivered by the Centre for Governance & Scrutiny, and
 - iv. Places for individual Board members attending CIPFA LPB Conference and attending LGA's 3-day LGPS Fundamentals course.
 - b. Additional forecast expenditure of £1,100 in respect of running costs including catering and travelling expenses – reflecting the general movement to more in person meetings as well as additional events (such as seminars and the effectiveness review) held in person at the office.
 - c. Finally, there is a forecast overspend of £470 on the costs relating to independent adviser. This is estimated at this stage based on actual costs to date and reflects that expenses and fees relating to additional services are slightly higher than estimated when the budget was set.
- 5.5 The budget proposed for 2024/25 has been prepared to take into account the known resourcing requirements and changes based on the above analysis of the current year actuals and forecast.
- 5.6 The main change is the addition of the budget for LPB Member Allowances of £18,700 – based on assumptions of the number of members in receipt of the allowance and an allowance for inflation of up to 3%. The allowance rates are increased with reference to any nationally agreed pay award for Local Government.
- 5.7 The budget amounts proposed for running costs and travel expenses are based on the anticipated costs for the year ahead taking account of recent experience and numbers of meetings and events likely to be scheduled.
- 5.8 The training budget is being proposed at an amount that will be sufficient for continuing costs relating to LOLA and Knowledge Assessments, as well as providing for individual places on suitable external courses and any in-house bespoke courses / seminars within a reasonable limit of numbers each year to balance cost and benefit and ensure appropriate value for money.
- 5.9 The budget for Independent Adviser fees in 2024/25 includes estimated inflationary uplift, estimated expenses and potential additional services.
- 5.10 Members of the Board are invited to comment on the draft budget and frame a recommendation to the Authority for consideration at its meeting on 8 February 2024.

6 **Implications**

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

Financial	As set out in the body of the report
Human Resources	None
ICT	None
Legal	None
Procurement	None

George Graham

Director

Gillian Taberner

Assistant Director – Resources & Chief Finance Officer

Background Papers	
Document	Place of Inspection
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Agenda Item

Subject	Quarterly Administration Update Quarter 2 2023-24	Status	For Publication	
Report to	Local Pension Board	Date	27/10/23	
Report of	Interim Assistant Director - Pensions			
Equality Impact Assessment	Not Required	Attached	N/a	
Contact Officer	Nigel Keogh – Interim Assistant Director- Pensions Lindsay Grayson – Service Manager - Benefits Joanne Webster – Service Manager - Customer Services	Phone	07505 074979 01226 666399 01226 666510	
E Mail	nkeogh@sypa.org.uk lgrayson@sypa.org.uk jwebster@sypa.org.uk			

1 Purpose of the Report

- 1.1 To update Members on administration performance and issues for the period from 1st July 2023 to 30th September 2023.

2 Recommendations

- 2.1 Members are recommended to:
- a. **Comment on the content of the revised administration update and indicate any areas where they would like to receive further detail**

3 Link to Corporate Objectives

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

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers). The report includes reference to feedback from our customers.

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision-making processes. The report includes information about the engagement with the employers in the scheme and how SYPA (South Yorkshire Pension Authority) can support them to complete their responsibilities.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times. The report includes detail on the overall administration performance to ensure Members are able to scrutinise the service being provided to our customers.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report do not have implications for the Corporate Risk Register.

5 Background and Options

- 5.1 This report seeks to make Board Members aware of the main areas of administration performance and any topical issues relevant to the reporting period in question for the most recently completed quarter. A review of the format and presentation of all performance reporting across the organisation is on-going and future reports will evolve to reflect the changes brought about by this review. Relevant Service Managers will be present at the meeting in order to answer any questions members may have.

Staffing

- 5.2 The following table is a summary of joiners and leavers for the administration service over the last three months.

Starters	Comments
Customer Services Officer x 2	2 External appointments External appointments External appointment
Leavers	
Customer Services Officer x 1	
Vacancies in Administration	
Assistant Director - Pensions	Starting 6 November 2023
Service Manager - Support & Engagement	Position under review
Senior Systems Officer x 2	Positions not filled

- 5.3 Whilst we are currently up to complement with Pensions Officers, the level of Pensions Officer recruitment over the last 2 years continues to leave us with an imbalance of staff across the career grade. This places additional pressure on those staff at the top of the career grade. Despite the proposals submitted to the Staffing Committee on 31 October 2023, it must be accepted that our ability to influence this position in the short term is limited as it is likely to be counterproductive to progress people through the career grade too quickly. It is also the fact that the ability to recruit externally into these roles is very limited.

Sickness absence

5.4 In terms of sickness absence, the table below shows the annualised absence levels for the administration service for the last three years and Q2 of the current year.

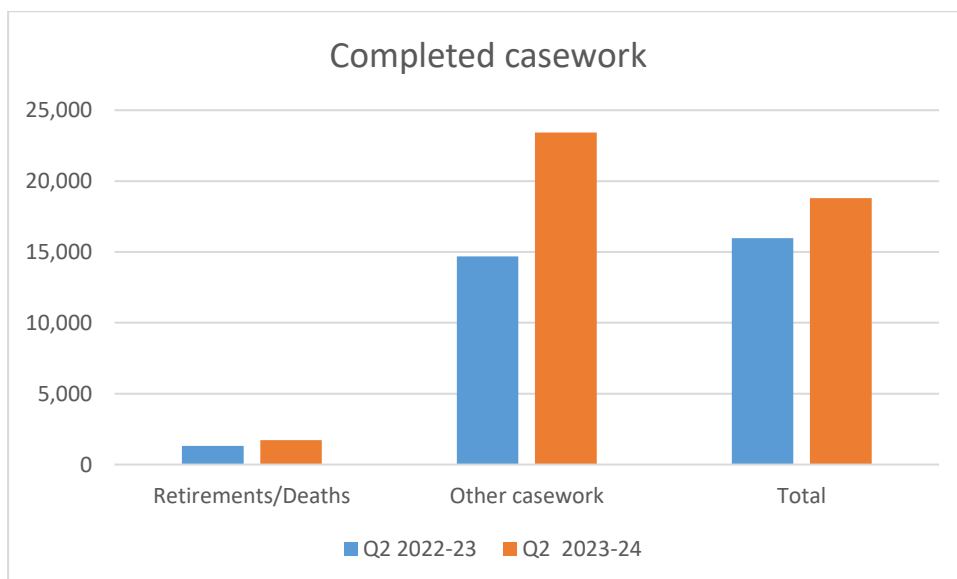
Average Days per FTE (Admin Service only)	2020-21	2021-22	2022-23	2023-24 Q2
Short-Term	1.50	3.27	3.76	0.74
Long-Term	3.00	5.48	3.72	1.76
Total	4.50	8.75	7.48	2.50

5.5 Whilst absence levels during the period remain are up from Q1, this trending lower level of sickness than in the previous year continues to demonstrate encouraging progress in absence management.

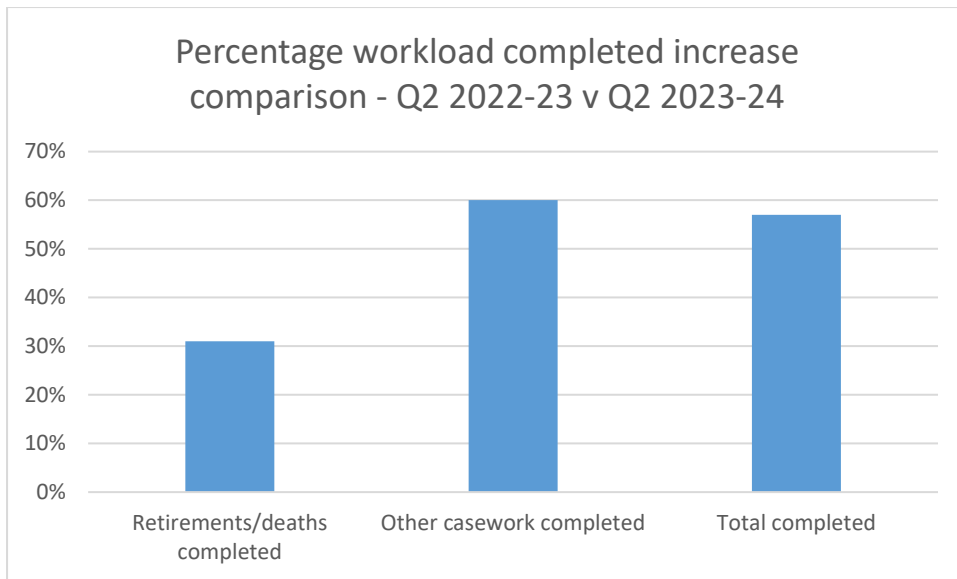
Benefits processing

Casework performance

5.6 As discussed at the last meeting of the Board, the coverage of casework performance has been revised (and will continue to be revised) as part of an on-going review to provide more relevant, “at-a-glance” analysis of casework processing performance.

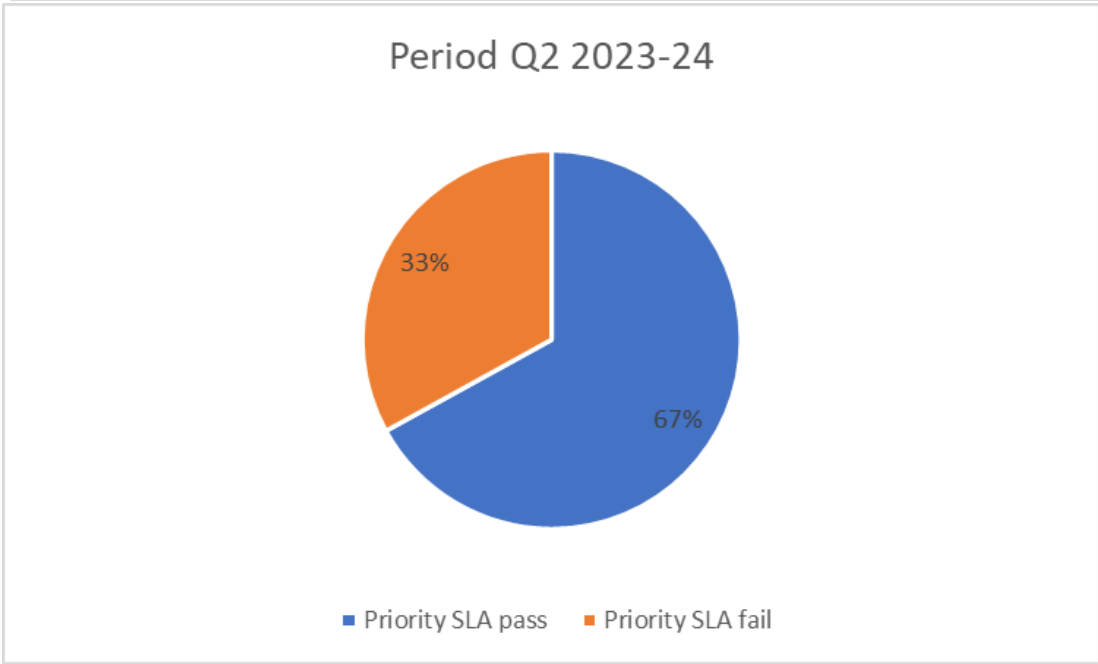
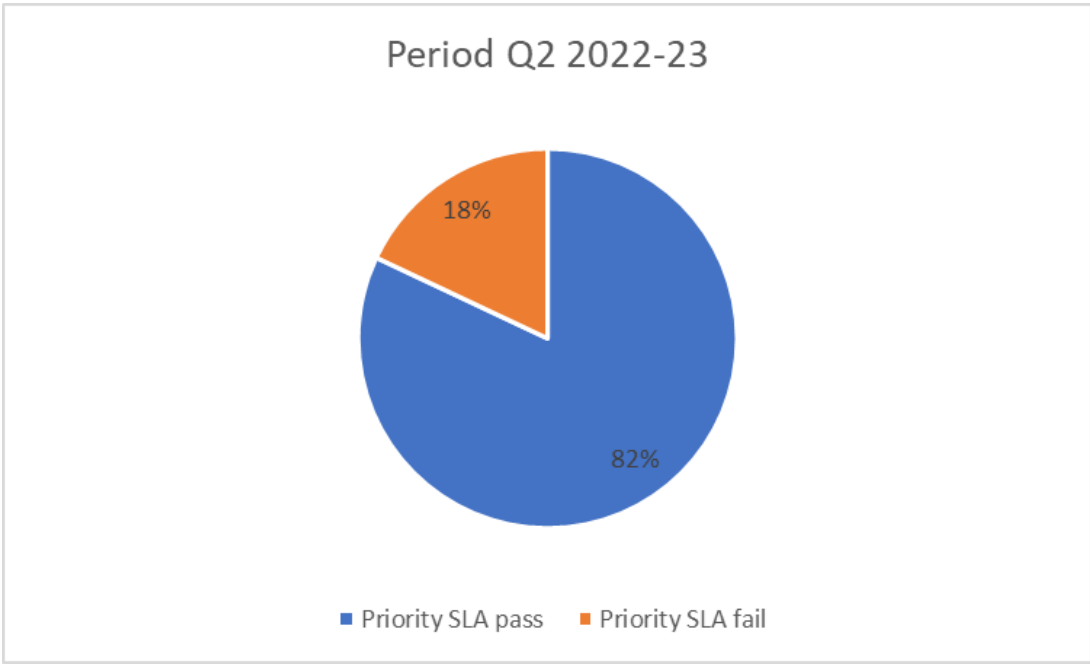


5.7 Based on a comparison with Q2 2022-23, the team continue to complete an increased amount of casework in both categories when compared with the same period in the 2022-23 reporting year – a percentage comparison is below:

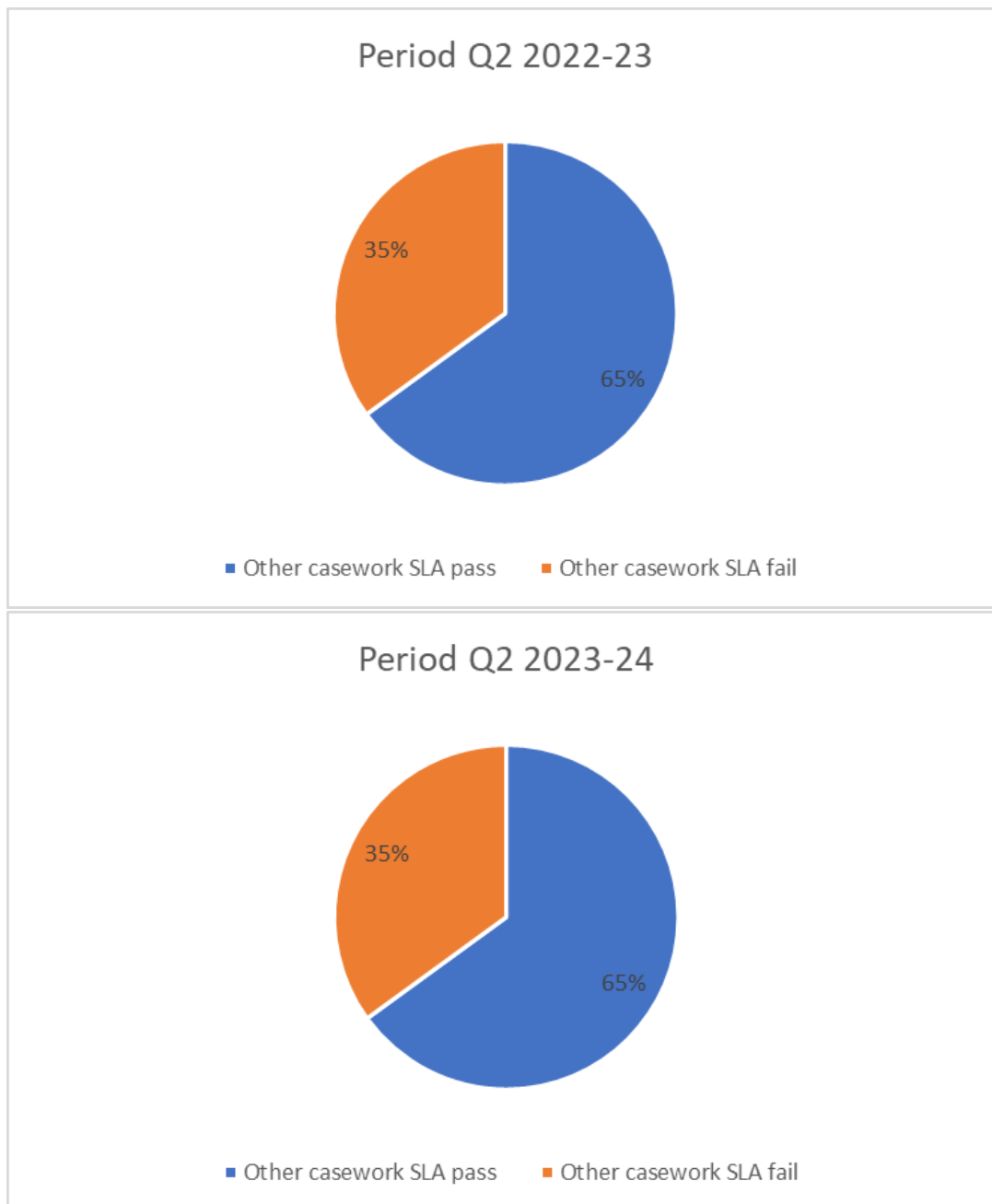


- 5.8 The overall completed case volumes increased significantly due to targetted overtime activity to focus on leaver & deferment casework (where there are considerable backlogs) which has contributed to these increased work volumes.
- 5.9 However despite the increased completion rate, the performance against our self-adopted service levels, particularly for priority cases, is markedly below the level achieved in the corresponding period in 2022-23 – comparisons below:

Retirement/Death cases (5 day SLA)



Other casework (various SLA's)



5.10 The reasons for this marked degradation in SLA performance in the “priority” category can be summarised as follows:

- Cases in the “priority” category (retirements and deaths) can be the most complex and fall to the more experienced team members to process.
- There has been a marked increase in “priority” cases during the period
- We have lost several experienced staff members during the period, reducing our capacity to respond to rising volumes within the SLA period.

Measures to improve this position are set out in the Action Plan paper later in the agenda.

- 5.11 As reported at the last meeting, cases in the “priority category” (retirements and deaths) all have a five-day SLA attached to them. Given the increasing complexity in the administration of the scheme, this is a very challenging target. Comparisons of the SLA’s used in comparably-sized funds (and being mindful that direct comparisons are problematic given that each organisation will use different processes and may use different definitions of the time taken on cases) show that five-day SLA targets for these types of cases are very rarely in use, which recognises how difficult this is to achieve. Proposals to change this SLA are set out in a separate paper later on in the agenda.
- 5.12 Across the board performance for other casework is comparable with the same period last year, despite the increased amount of casework being processed. This is a consequence of the fact that much of the casework being processed is from existing backlogs and is already out of target. Nevertheless, the volumes that the team are getting through are encouraging in light of the challenges they face.
- 5.13 We have previously reported to members previously that we are undertaking a project to introduce a means of processing leavers either using automated tools or via bulk processing (or more likely a combination of both). The first stage of this project was to process these leavers on a bulk basis in a test system environment. The next stage is to introduce additional validation checks to ensure the bulk process can be utilised in the live systems environment. This project has been delayed due to competing but necessary priorities within the Systems Teams which supports the administration system and the revised completion date for this project is now expected to be Q3 2023-24.
- 5.14 In relation to aggregations, the numbers of outstanding cases remain excessive and only slight progress has been made to reduce this backlog. The team have reduced Aggregation Quotes to around 500 members and are keeping up with any new quotes. Aggregation quotes that were completed around this time last year are also now coming up for automatic review. This process creates a Settlement and means the member hasn’t responded to the quote during the 12 month period. Aggregation Settlements are the next backlog the team will target.

Customer Services

Scheme Member Engagement – Customer Satisfaction – Retirement Survey

- 5.15 The Authority is always keen to improve engagement with our scheme members and to measure the levels of satisfaction with our service. Each month surveys are issued to members who have recently retired to understand their experiences. The table below shows the overall satisfaction levels from respondents to the survey issued to members who retired in May, June, and July 2023, who provided an email address.

Q. Overall, how satisfied are you with the service you receive from us?		Compared to last quarter	
Very Satisfied	60%	No Change	
Satisfied	31%		
Dissatisfied	9%	No Change	
Very Dissatisfied	0%		

Total Number of Respondents	45 out of 316		
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Whilst there is no change in the overall green category this quarter, we have seen a shift of 2% from the satisfied category to very satisfied which is always a welcome move.

The results of the survey showed 83% of members said they were satisfied with the time it took to process their retirement benefits, leaving 8 members who were dissatisfied. Further analysis of the 8 members identified that they were unhappy with either delays surrounding their AVC payment or delays with the employer sending information to SYPA.

When asked what additional actions we could take to improve the retirement process, the following comments were noted:

- You could explain where the forms need to be sent to, there was nothing to confirm. Also, the people who answer the phone could be more understanding, sympathetic and helpful. I retired early due to redundancy, which was quite distressing, but the person didn't display any understanding of that and just referred me to my employer.
- Make it clear that it's possible to choose an immediate retirement date. Make it clear that the first payment will be at the end of the month selected for retirement.

Action taken in response to comments made are summarised below.

- Retirement claim forms have since been updated to include our address on the checklist. Prior to the update our address only appeared on the covering letter, and it wasn't immediately obvious where members should return retirement forms. In response to calls regarding redundancy, SYPA's policy is requests for a redundancy retirement quote must come from the employer.
- We are looking at reviewing information notes provide throughout Retire Online.

Scheme Member Engagement – Customer Centre – Telephone Calls

5.16 Members of the Board will be aware that the Customer Centre exists to provide a single point of contact for scheme members and employers. Feedback for the Customer Centre continues to be positive overall. A survey was issued to 3,833 members, with an email address, who had contacted us by phone over the months of May, June, and July 2023 to ask about their experience of our service delivery and for ideas on service improvements. The results of the survey shown below.

Q. Overall, how satisfied are you with the service you receive from us?		Compared to last quarter	
Very Satisfied	55%	Up 3%	▲
Satisfied	31%		
Dissatisfied	10%	Down 3%	▼
Very Dissatisfied	4%		
Total Number of Respondents	376 out of 3,833		

The percentages in the green category have increased by 3% which is encouraging.

When asked how members would describe their wait time to connect to a member of the team, 86% said their call was answered without having to wait in a queue or that they were fine with the overall wait time. One member said they eventually used the live chat line which was much quicker, and nine members said they waited between 20 and 30 minutes for their call to be answered, which we appreciate isn't an acceptable wait time.

In response to the points above:

- We are currently staffed with relatively new members of the team, due to the high turnover in the Customer Centre. We are continuously building on the support, knowledge, and skills of staff in the team which will improve over time. We have successfully recruited again and subject to pre-employment checks two new members of staff will join the team in November.
- We are also currently looking into trialling the following changes:
- Automatic call Distribution – the survey shows that 196 members (48%) were calling about retirement, which was the most popular subject by far. Apart from updating the telephone announcement to direct members online, we will use call routing for retirements and deaths. The aim is to train staff quicker on specialised subjects giving them the confidence to deal with these calls.
- Making use of a call back facility. This will hopefully improve member experience and reduce call abandonment rates. We are looking to offer call backs during the hours of 3.00pm – 4.30pm.

Scheme Member Engagement – Customer Centre Emails

5.17 Email is an important channel for many of our members and, since October 2020, we have been monitoring customer satisfaction levels with our email responses by embedding “click face” surveys into our email signatures. The table below shows the overall satisfaction levels for May, June and July 2023.

Q. Overall, how satisfied are you with the service you receive from us?		Compared to last quarter	
Excellent	63%	Down 3%	▼
Good	9%		
Ok	4%	Up 3%	▲
Poor	24%		
Total Number of Respondents	86 out of 8,894 emails sent		

The percentage of members in the green category dropped for the second quarter in a row to 72% which is disappointing. As always in this area the response rates are low and not all members provide further information, however from the members who rated the service as poor the following comments were made:

- I have repeatedly tried to access my deferred pension online - it quotes figures then says I have AVCs - i spoke with SYPA and they say I don't have any, but I cannot get any further in the process to upload and forms??? (I cannot access them) - I rang up and was told the passports had been received but there is something wrong with the online system - I cannot get any further.
- I still cannot access my account, not accepting my reset password.
- It wasn't dealt with as a SAR and did not provide me with the information I required.
- 6 members said they were not dealt with quickly enough.
- 5 members said the email reply did not fully resolve their query.
- 2 members said the information was not helpful.
- 2 member had issues accessing secure emails through egress switch. Saying they thought the email was a scam.

We appreciate this is an area that we need to address. All emails are currently checked before a reply is issued which means we have an extra step in the process which occasionally holds the process up, however we do believe it is necessary to have checks in place.

Scheme Member Engagement – New Joiner Survey

- 5.18 As part of our wider engagement with scheme members, we wanted to gain some insight into how members who have recently joined the pension scheme rated our service. A survey was issued to 819 members who had joined the scheme in April and May 2023. The new joiner survey specifically asks about the welcome email/letter, including registration of the online portal. The results of the survey are shown below:

Q. Overall, how satisfied are you with the service you receive from us?		Compared to last quarter	
Very Satisfied	27%	Down 1%	▼
Satisfied	49%		
Dissatisfied	24%	Up 1%	▲
Very Dissatisfied	0%		
Total Number of Respondents	33 out of 819 emails issued		

Prior to this quarter we had made really good progress with our new joiner process.

When asked if the welcome letter/email provided enough information about the scheme and if it was clear what action the member needed to take, only 62% agreed/strongly agreed. Three members said they never received a letter/email and one member said they never left or re-joined the scheme, only changed jobs.

When asked how soon after joining the scheme did they receive a welcome letter/email, 20 members said within the first 3 months, 2 members after 3 months and 11 saying they couldn't be sure.

When asked what could be improved with the new starter procedure the following comments were made:

- Website and login user screens are very old fashioned. Possibly an app version.

- The place to sign up for an account was a bit difficult to find or not clearly marked.
- I can't remember reading anything for the app. You need to highlight this more.

Action Taken

Suggestions for a mypension app have already been put forward however we have other priorities with our online service and are currently exploring a quicker, easier registration process. With regards the sign-up links, this is something we can address and will explore ways to make the links more obvious going forward.

We recognise that there is still work to do around the new joiner process and will certainly take on board all comments made.

5.19 *Member Engagement – online portal*

We continue to encourage all scheme members (regardless of status) to sign up to use the online portal which was enhanced and expanded in 2019. There was a total of **3,618** new registrations in the quarter to the end of September 2023 taking the total number of registrations to 89,112 or around 53% of the total membership, as shown in Appendix A. In addition, sessions where members are invited to bring their devices are held at Oakwell House to further encourage online sign up and help them fully exploit the available facilities.

Although the numbers registered to engage with us online are not as high as we would wish as a proportion of the scheme membership overall, evidence from other funds does suggest that our levels of registration are at least comparable with the percentage of members signed up to use online services within the Local Government Pension Scheme (LGPS) more widely.

Engagement

Employer performance

5.20 The submission of monthly data by employers is key to ensuring that member records are accurate and up to date. They generate the values used in the direct debits for the collection of contributions due from employers and they provide the pay and service details necessary for us to calculate employee benefits, provide Annual Benefit Statements etc. Given the importance of this data it is extremely important that employers make their data submissions correctly and on time.

5.21 A concerted effort both in terms of employer engagement and the application of dedicated resources to investigating and clearing errors on employers monthly data returns has significantly improved the position over recent months, and was key to us being in a position to complete the Annual Benefit Statements by the statutory deadline of 31 August.

5.22 This revised approach to the management of employers and employer data has proved very successful and proposals for how capitalise on this were part of the package of proposals submitted to the Staffing Committee on 31 October.

Individual query employer reporting

- 5.23 Appendix B provides details of the “top 10” employers in terms of queries and shows how they have performed over the year. Despite the increased amount of work on hand at the end of the quarter (driven by an increase in the number of queries as the Benefits Team work through the backlog of leavers), the number of queries resolved in the quarter shows a significant improvement in performance across the board when compared with the position a year ago.

Engagement activity

- 5.24 Over the quarter, the Engagement Team have continued to deliver a wide range of activity in support of members and employers. This has included delivery of:

- 5 Training Sessions
- 5 Employee Presentations – Virtual
- 2 Employee Presentations – In Person
- 5 Employee Presentations – Hybrid (2 x Planning for Retirement, 1 x Deferred Retirement, 2 x Understanding your Pension)
- 4 Employer Focus Groups (2 in person and 2 virtual)
- 8 1:1 Sessions Virtual/Civic Offices

Current Improvements

- Identifying Employer Training needs and offering bespoke training to ensure tailored sessions appropriate for staff.
- Quarterly Newsletter for Employers which provides updates on current issues and awareness of future changes. Issue 13 (October) has been issued on time.
- Regular Meetings with Rotherham MBC Pensions Team has produced outstanding results and significantly reduced the queries and keeps the Employer informed of latest issues.
- Monthly Data Collection (MDC) Dashboard helps to identify Employers who are late with submissions in order to issue penalty notice warnings to encourage the MDC to be submitted before the deadline.
- Working with SYPA Comms team to improve the current Powerpoint presentations and change them to Canva. This will also improve the Training Videos and Webinars.
- Ill Health Retirement Process changes have been implemented and training with the larger Employers are booked in for October. The sessions delivered so far have been well-received.
- Preparations for the Employer Forum in November are underway.

Future Improvements

- Working on improvements to the EPICi system to enable more effective reporting and a visualised snapshot of the Employers Status with outstanding queries.

- Creating a Bulk Redundancy request template for Employers which will automatically create figures for all members over age 55, at the time of retirement, from using the MDC information on UPM.
- Collaboration with the MDC Focus Team to target and improve communications with non-compliant Employers/Payroll Providers.
- Working on a new Ill Health UPM Process for Stage 2 appeals.

Annual Benefit Statements (ABS and Pensions Saving Statements (PSS))

- 5.25 The issue of Annual Benefit Statements by the end of August is a key task for the Pensions Service as is the associated issuing of Pension Savings Statements for tax purposes.
- 5.26 This year we achieved 100% of ABS issued by the deadline, comprising 100% of eligible active (47,800), deferred (50,087), councillor (40), and pension credit (83) members.
- 5.27 With regard to Pension Savings Statements, we issued 127 statements by the deadline of 6 October, with 36 more still outstanding at that date (these were more complex cases involving transfers in during the period). As at the time of writing, this number had reduced to 24. Once all the cases are completed, we will file the necessary breach report with the Pensions Regulator.
- 5.28 As previously reported, the resolution of 217 historic complex cases has been outsourced to Hymans Robertson. At present, 151 of these remain outstanding. As above, once this exercise has been completed, we will report to the Regulator.

Conclusions

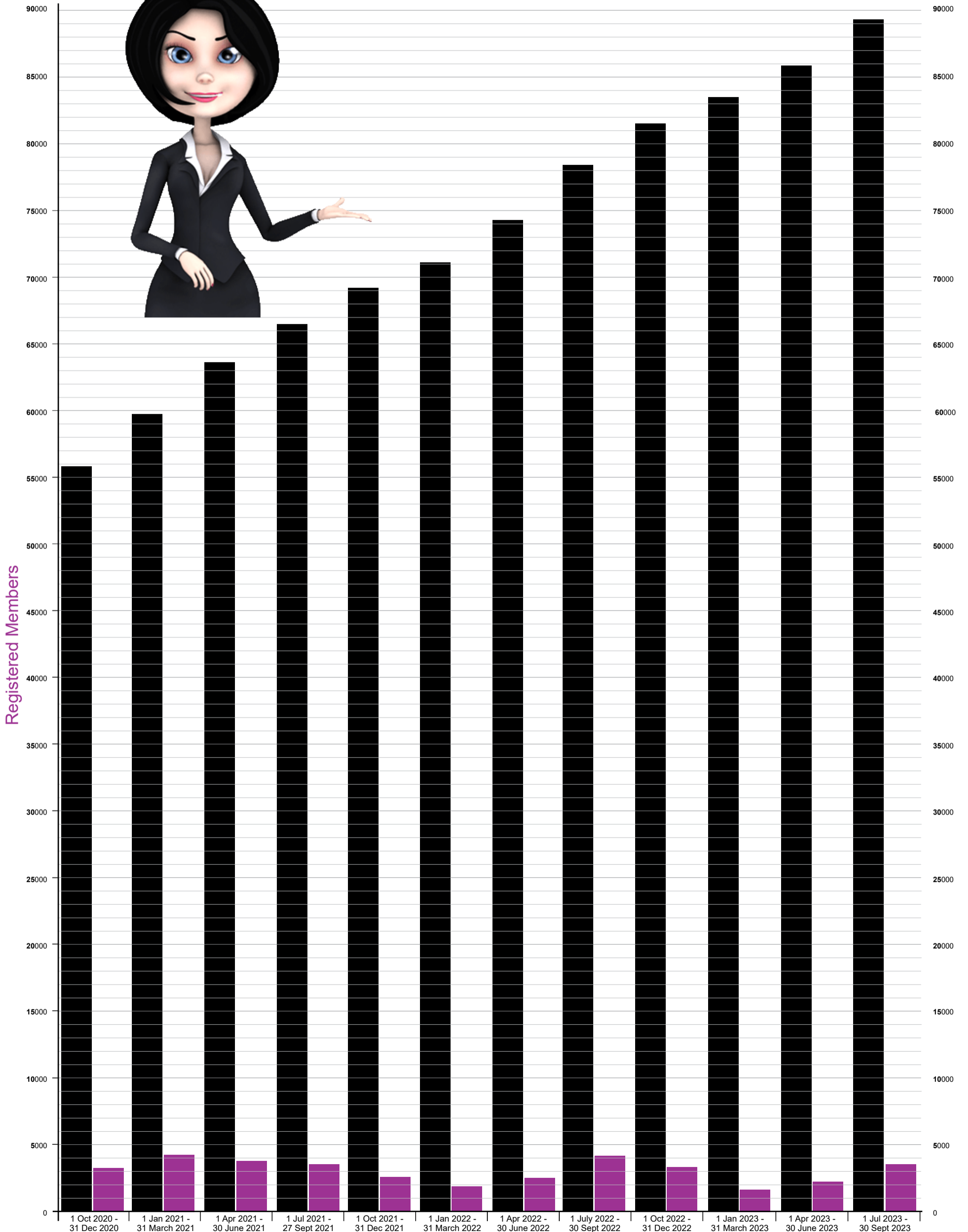
- 5.29 The content and presentation of data in this report will continue to evolve over time, with a view to providing something that is more focussed on key issues.

Nigel Keogh
Interim Assistant Director - Pensions

Background papers	
Document	Place of Inspection
None	

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Registrations - 1 July - 30 September 2023



Numbers registered at quarter end

New registrations in quarter

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Summary of Employer Queries Raised, Completed and Outstanding
Shown by Quarter for 10 Employers with highest total query volumes to up to 30 September 2023



Employer	Q3 2022/23			Q4 2022/23			Q1 2023/24			Q2 2023/24		
	Raised In Quarter	Completed In Quarter	Outstanding Quarter End	Raised In Quarter	Completed In Quarter	Outstanding Quarter End	Raised In Quarter	Completed In Quarter	Outstanding Quarter End	Raised In Quarter	Completed In Quarter	Outstanding Quarter End
[00500] Rotherham MBC	263	609	233	235	429	39	186	199	26	333	225	134
High	54	65	5	36	37	4	70	70	4	50	48	6
Standard	209	544	228	199	392	35	116	129	22	283	177	128
[00400] City Doncaster Council	169	283	169	279	379	69	211	229	51	375	284	142
High	58	66	9	59	63	5	81	84	2	38	30	10
Standard	111	217	160	220	316	64	130	145	49	337	254	132
[00600] Capita	26	119	275	20	29	266	15	15	266	53	62	257
High	8	29	11	10	10	11	4	3	12	2	3	11
Standard	18	90	264	10	19	255	11	12	254	51	59	246
[00600] Sheffield CC	259	178	141	235	202	174	281	240	215	578	376	417
High	80	60	20	68	66	22	140	88	74	115	114	75
Standard	179	118	121	167	136	152	141	152	141	463	262	342
[00600] EPM	14	26	228	10	13	225	6	8	223	38	49	212
High	4	2	11	5	5	11	1	1	11	3	2	12
Standard	10	24	217	5	8	214	5	7	212	35	47	200
[00473] Doncaster Childrens Services	0	18	2	0	0	2	8	0	3	37	20	20
High	0	1	0	0	0	0	0	0	0	0	0	0
Standard	0	17	2	0	0	2	8	7	3	37	20	20
[00300] Barnsley MDC	81	93	31	100	90	41	103	113	31	225	156	100
High	32	32	4	27	21	10	56	58	8	32	34	6
Standard	49	61	27	73	69	31	47	55	23	193	122	94
[00372] Greenacre Academy	6	7	71	14	32	53	10	32	52	22	30	44
High	2	0	5	2	6	1	0	0	1	1	0	1
Standard	4	7	66	12	26	52	10	26	52	21	30	43
[00222] The Sheffield College	13	30	62	24	58	28	26	26	28	38	25	41
High	6	12	8	3	10	1	8	7	2	2	0	4
Standard	7	18	54	21	48	27	18	19	26	36	25	37
[00295] The Chief Constable	39	29	41	24	43	22	50	50	22	94	47	69
High	7	7	1	10	10	1	16	14	3	29	27	5
Standard	32	22	40	14	33	21	34	36	19	65	20	64

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Agenda Item 14

Subject	Administration Action Plan Update Quarter 2 2023-24	Status	For Publication	
Report to	Local Pension Board	Date	30/10/23	
Report of	Interim Assistant Director - Pensions			
Equality Impact Assessment	Not Required	N/A	N/a	
Contact Officer	Nigel Keogh – Interim Assistant Director- Pensions	Phone	07505 074979	
E Mail	nkeogh@sypa.org.uk			

1 Purpose of the Report

- 1.1 To update Members on administration performance and issues for the period from 1st July 2023 to 30th September 2023.

2 Recommendations

- 2.1 Members are recommended to:

- a. **Note the content of this update report and indicate any areas where they would like to receive further detail.**

3 Link to Corporate Objectives

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

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers). The report includes reference to feedback from our customers.

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision-making processes. The report includes information about the engagement with the employers in the scheme and how SYPA (South Yorkshire Pension Authority) can support them to complete their responsibilities.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times. The report includes detail on the overall administration performance to ensure Members are able to scrutinise the service being provided to our customers.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report do not have implications for the Corporate Risk Register.

5 Background and Options

Administration Action Plan (AAP)

- 5.1 As mentioned at the last meeting, the management team were in the process of formulating an action plan to address three key issues: caseload backlogs, employer data processing backlogs and improving data quality.
- 5.2 Following a series of workshops and Focus Groups, three key areas were identified for action:
- A plan to address capacity issues in the Benefits Team and structural realignments to address training needs, improve employer support and to build on the success of the new approach to managing monthly employer data returns.
 - Maximising the effective use of available IT solutions to automate processes wherever possible.
 - Take steps to recognise the need for a more strategic approach to data management.
- 5.3 The steps that are being taken to address the above are set out below.

Benefits team resourcing and structural changes

54. Having the right level of resource with the right people in the right place doing the right things is critical to reducing backlogs, preventing future issues (in terms of backlog accumulation, staff under-skilling, shortage of employer support, SLA underperformance etc) and working towards improving customer service.
- 5.5 The proposals submitted to the Staffing Committee on 31 October (set out in Appendixes A – D seek to address this and form the backbone of the measures in the AAP. As these proposals are subject to ongoing consultation with staff and trade unions they are confidential and thus are included within part 2. Officers will be happy to discuss the general principles of the proposals in open session but if the discussion gets into specifics, it may be necessary to move into private session.

Automated and Bulk Processing

- 5.6 UPM developments (aside from routine maintenance and statutory updates) will focus on areas which deliver the greatest impact in the shortest amount of time. Since April, work on the aggregations process has now almost reached a conclusion, which will help to reduce backlogs in this area.
- 5.7 Similar work is taking place to investigate automating the leaver process. However, the efficacy of automating the leaver process is very much dependent on the supply and completeness of member data, which whilst much improved due to the work of the Engagement and MDC teams, still presents a limiting factor to the pace of implementation of changes.

- 5.8 In addition to reviewing and approving development requests emerging from across the business, a Pensions Systems Steering Group (chaired by the AD – Pensions) is tasked with producing a strategic, forward-looking update/development timetable (as far as is practicable, given some that some urgent updates can arise at short notice), so that resources can be planned accordingly.

Data Quality

- 5.9 The need to acquire and maintain for good quality data is not only necessary to discharge our responsibilities under the GDPR but also to provide an effective administration service. And whilst we are consistently returning good data quality scores for the purposes of TPR reporting, this does not equate to the data quality we require to improve the efficiency of our service.
- 5.10 These views were reiterated at a recent Leadership Team workshop, where data quality was identified as a key corporate priority.
- 5.11 The proposed Data Management Board (draft terms of reference attached at Annex A to Appendix E) will provide a strategic focus to data management, rather the event-driven approach that prevails at present.

Performance Standards Review Update

- 5.12 As reported to the last meeting of the Local Pensions Board, a review of the SLA targets for “Priority” work (retirements and deaths), which all have a five-day SLA attached to them, concluded that given the increasing complexity in the administration of the scheme, this is a very challenging target and one which we are consistently struggling to achieve. Comparisons of the SLA’s used in comparably-sized funds (and again being mindful that direct comparisons are problematic given that each organisation will use different processes and may use different definitions of the time taken on cases) show that five-day SLA targets for these types of cases are very rarely in use, which recognises how difficult this is to achieve.
- 5.13 The report concluded that a five-day SLA is neither appropriate (given the nature of the scheme in 2023), nor achievable on a consistent basis, and that we would come back to the Board with proposals for a new target for this category of work. Subsequent analysis suggests that adopting an eight-day SLA would be both more consistently achievable and not out of step with common practice. Subject to approval by the Board in December, this can go live in 2024.
- 5.14 With regard to other casework (referred to as “non-priority”), analysis of the various SLA’s attached to those processes suggests that these should remain unchanged for the following reasons:
- The SLA’s currently in place align closely with those used in comparable funds, and as such represented standard practice.
 - Variations in SLA achievement is largely influenced by the extent to which the cases processed in any given period are backlog cases which by definition are already out of target.
 - Once the resourcing issues in the Benefits Team are resolved, SLA achievement in this area should improve.

6 Implications

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

Financial	The programme of improvement activities outlined in this report is likely to require additional resources which will need to be approved by the Authority in line with the appropriate procedures.
Human Resources	Attention needs to be paid to achieving a better balance of experience across the Pension Officer group and developing significantly improved levels of technical knowledge across the Pensions Service and this will require investment in a more structured approach to training within the career grade. In addition, the capacity planning exercise has resulted in the need for further recruitment which could exacerbate this imbalance in the levels of experience across the workforce in the short / medium term which will require careful management.
ICT	A significant degree of focus in terms of ICT development resources on addressing root causes of some of the systems challenges the service faces is required and this may require some one-off investment to expedite delivery.
Legal	None
Procurement	None

Nigel Keogh
Interim Assistant Director - Pensions

Background papers	
Document	Place of Inspection
None	

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Agenda Item

Subject	Appeals Breaches and Complaints – Quarter 2 2023/24	Status	For Publication
Report to	Local Pension Board	Date	9 th November 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 provide the Board with information in Appeals, Breaches and Complaints for the second quarter of the year.

2 Recommendations

- 2.1 Members are recommended to:
- a. **Note the contents of this report.**

3 Link to Corporate Objectives

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

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

Listening to our stakeholders

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

Effective and Transparent Governance

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

Using the information generated through analysis of Appeals, Breaches and Complaints should result in positive progress against each of the above corporate objectives.

4 **Implications for the Corporate Risk Register**

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

5 **Background and Options**

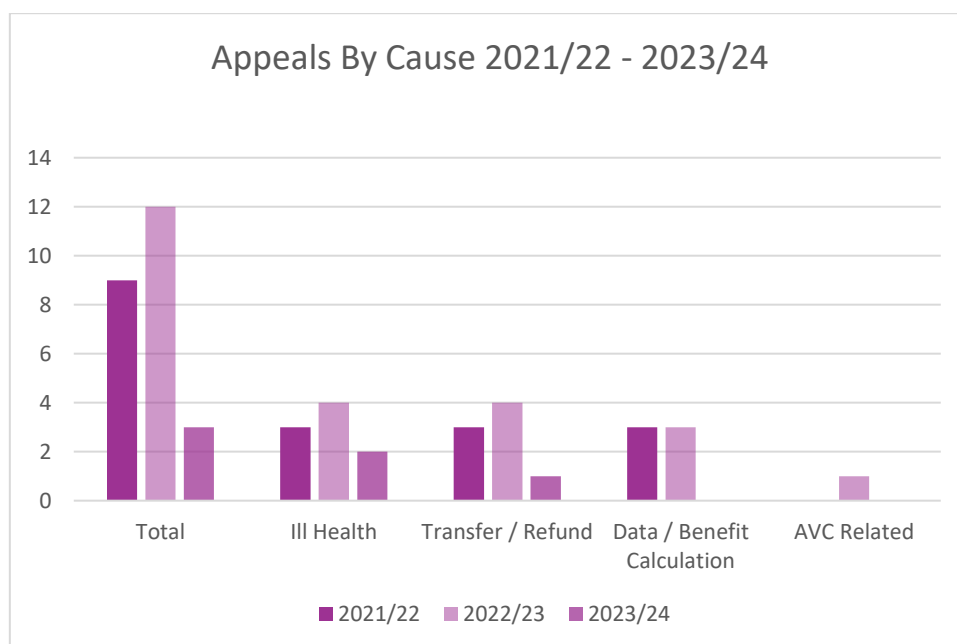
5.1 Each quarter the Board receives a summary of the Appeals, Breaches and Complaints either dealt with or received in the quarter to ensure that the organisation is effectively learning from what happens when things go wrong.

Appeals

5.2 One Stage 1 Appeal against the actions of the Authority has been determined in the quarter and details are provided below.

Ref	Reason for Appeal	Upheld?	Comments
KT	Actions by SYPA has caused delay in processing a transfer into the Fund resulting in a lower value than anticipated being added to the members pension account. In addition, the initial response to the complaint was inadequate causing additional distress to the scheme member.	Yes	The members' account has been adjusted in line with the likely decision had the case been considered by the Ombudsman and compensation of £200 awarded.

5.3 This case is in some senses individual, but it is reflective of some of the difficulties faced when dealing with significant volumes of outstanding work, nonetheless this sort of delay is not acceptable and the way in which the complaint was dealt with made the situation worse and this has been addressed internally. The chart below shows the trends in causes of appeals over the current year and previous two years.



Breaches

5.4 The table below sets out the various breaches identified by the Authority in the quarter.

Ref	Date	Type	Description	Action
70	27/09/2023	GDPR	A monthly payslip file containing 31 payslips was mailed to one member. The member contacted SYPA and confirmed they had shredded the documents.	Reminder issued to staff to follow the correct process which prevents instances of this sort. Procedure reviewed and a further check added to the process to further reduce the risk of instances of this sort. Apology letter issued to the affected members.
68	02/08/2023	GDPR	The details of two members with the same name became entangled resulting in information for one member being provided to the other. The wrongly disclosed information was returned to the office by one of the members and shredded.	Records separated and position rectified by system administration action.
67	03/07/2023	Provision of Information	A change of address and change of nominated beneficiary were processed in the wrong order. This resulted in the letter confirming the change of beneficiary which contains no information as to the nature of the change being sent to the member's ex spouse's house.	An apology was made to the member and feedback given to the members of staff involved.

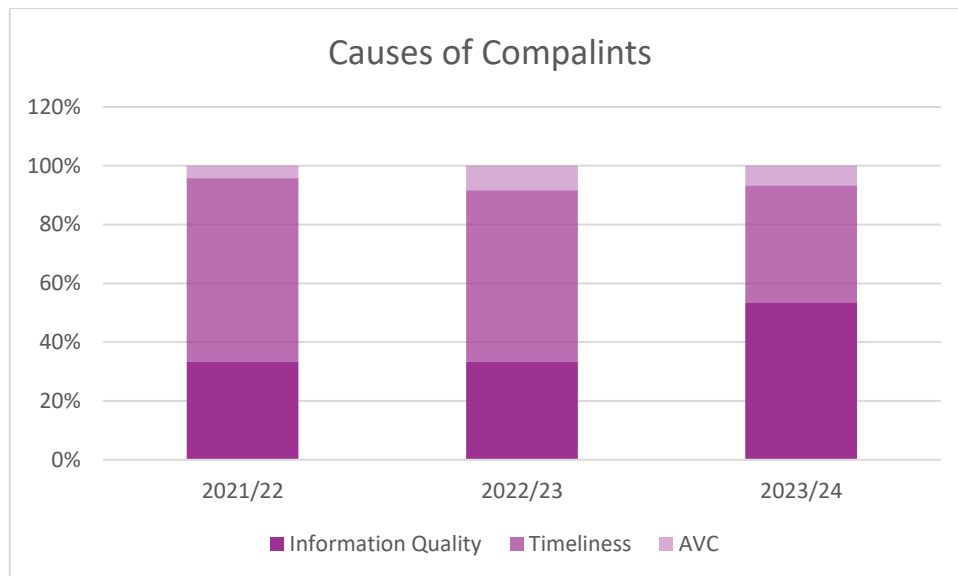
5.5 Each of these cases shows some sort of human error. In two cases the actions of scheme members prevented wider release of information which is to those individual's credit. In one case additional controls have been put in place to prevent a recurrence. However, the other two cases are individual and beyond encouraging that greater attention be paid by staff there appears little in the way of further controls that can be put in place.

Complaints

5.6 The table below outlines the complaints received and dealt with during the quarter

Ref	Complainant	Nature of Complaint	In Time	Responsible party	Other Actions
C121	Active Member	Nomination sent to wrong address (see breach above)	Yes	SYPA	See above
C122	Active Member	Delay with annual allowance calculation and member unhappy with communication in relation to the delays	Yes	SYPA/Third Party	Significant work has been undertaken to address the backlog of tax cases to prevent future cases of this sort but this work will not be completed until at least the end of the year.
C123	Deferred Member	Confirmation that not a scheme member and benefits kept separate	Yes	SYPA/Member	
C124	Active Member	Confusion over the start date on statement, aggregation, value of deferred benefits and the issuing of a transfer statement	Yes	SYPA/Member	
C125	Leaver	Wanted a refund but has previous membership in another fund which was not known up until the point of processing the final leaver data.	Yes	SYPA/Member	
C126	Active Member	Complaint about timeliness of supplying information to another fund. Delays were caused by the employer	Yes	Employer	
C127	Leaver	Complaint about the service when trying to claim a refund. In part caused by member not receiving letters or parts of letters	Yes	SYPA/ Member	Customer Centre checking processes to be reemphasised and improved.
C128	Active Member	Complaint about timeliness of completing and aggregation and lack of clarity in communication.	Yes	SYPA/Member	Issues about clarity of letters being reviewed by management.

5.7 The chart below illustrates the causes of complaints over the current year and the previous two years. Information quality and timeliness remain the main causes with the quality of information provided increasing although often these two issues can be inter-related.



5.8 Officers are examining a more systematic approach to complaint handling which will ensure that any learning is more rapidly transmitted into the operational teams and that there is greater consistency in the handling of complaints.

Cyber Security Incidents

5.9 Over the course of the quarter there were 8 cybersecurity incidents reported, one of which was a duplicate and another a false positive leaving 6 genuine incidents in the period.

5.10 All 6 genuine incidents were reported and contained without clicked links or response to coercion. In all cases the sender address and links were blocked, and all staff notified to raise awareness in relation to future attempts.

5.11 Recent incidents have highlighted the level of sophistication threat actors are able to produce when sending phishing e mails. Staff have so far been able to identify these threats, although awareness training continues to be a priority for the organisation.

6 Implications

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

Financial	None directly.
Human Resources	None
ICT	None
Legal	The Authority is under an obligation to make appropriate reports to the Pensions Regulator and to appropriately consider both appeals and breaches. This report demonstrates compliance with these obligations.
Procurement	None

George Graham

Director

Background Papers	
Document	Place of Inspection
Internal Dispute Resolution Procedure	Booklets (sypensions.org.uk)
Complaints Procedure	Complaints (sypensions.org.uk)

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