SOUTH YORKSHIRE
PENSIONS AUTHORITY

MEDIUM TERM FINANCIAL STRATEGY

2025 - 2028

Contents

1. Foreword

1.1 Foreword to the Medium-Term Financial Strategy 2025/26 to 2027/28

1.1.1 This Medium-Term Financial Strategy (MTFS) has been produced by the South Yorkshire Pensions Authority to cover the period from April 2025 to March 2028. This period will see the continued emphasis on supporting the overall Corporate Strategy in building on the continuing improvement journey for the organisation, as well as completing the transition of the Authority's remaining investment assets into the pooling structures provided by the Border to Coast Pensions Partnership.

1.1.2 The strategy covers both the costs of running the Authority's operations and the income and expenditure of the pension fund, although this is significantly more difficult to forecast than routine running costs such as staff salaries.

1.1.3 Any financial strategy is based on a series of key assumptions and throughout this document these assumptions are identified and are subject to ongoing review as part of the process of regular budget monitoring and producing updates to this strategy.

1.1.4 The financial strategy (and the budget which is the annual expression of the strategy) is, put simply, the financial expression of the policy position set out in the corporate strategy. Hence this strategy is updated each year as the Corporate Strategy is updated to reflect changed circumstances.

1.1.5 While SYPA is less exposed to the wider constraints on the public sector financial environment than our colleagues in the major employing organisations within the Pension Fund, we still have a responsibility to manage the resources for which we are responsible in such a way that our expenditure does not negatively impact on the overall performance of the Pension Fund. This strategy sets out how we aim to achieve this in as transparent a way as possible.

2. Setting the context for the medium term financial strategy

2.1 Public Sector Finance

2.1.1 The public sector financial environment is probably the most significant factor defining the context in which this strategy is developed. Key issues, like the level of pay awards, have an impact both on some aspects of the Fund's liabilities as well as upon elements of the Authority's cost base.

2.1.2 Local government finance decisions have an impact on both the Authority and the Fund. In general terms, growth in local government spending tends to lag growth in the generality of government spending, although pay tends to mirror the headline change in public sector pay.

2.1.3 The effects of inflation and other demand pressures remain hugely significant issues for Local Government. The financial settlement includes funding for Councils for costs arising from this, as well as additional funding for social care. However, a substantial proportion of this additional funding is dependent on increases to council tax, and it remains the case that the overall context is that local government finances are under increasing pressure.

2.1.4 The national pay award for 2024/25 was agreed in October 2024 at a level of £1,290.00 added to each scale point to point 43, and 2.50% to all scale points above this level. This increase is smaller than the previous pay award, but still higher than the sector had been used to over the medium to long term and these pay awards have led to further pressure on Local Government Budgets. Combined with the inflationary economic environment, it looks like this level of pay awards are here for the short to medium term.

2.1.5 With the previous three pay awards being proportionally greater than prior increases, our assessment is that it is likely that headline pay increases in the medium term will now be around, or quite possibly just below, the level of 4%, and that major employers (and probably schools and colleges as well) will continue to need to identify significant year on year savings. This has wider effects on a number of areas, including the affordability of contribution rates, the balance of membership between active, deferred and pensioner members, and the number of early retirements on grounds of redundancy. These factors will influence the value of benefits in payment, the average lifetime in retirement and the value of lump sum "strain" payments into the Fund. All of these factors will need to be reflected in forecasts of income and expenditure and in the debate over contribution rates at each valuation.

2.2 The Pensions Sector

2.2.1 What is happening in the wider pensions sector impacts the Authority and the Fund in a less direct way, although no less significantly. For example, a significant change in the funding level of the remaining private sector defined benefit schemes could change the value of certain assets classes used to address the results of the change (e.g., a search for index linked gilts if funding levels increased). This could impact on the potential rate of growth in the value of the Fund or could make it harder to deploy capital into specific types of asset if other funds take up the supply of assets.

2.2.2 In addition, trends in the wider pensions sector tend, over time, to influence developments within LGPS and in the public sector pensions' space. These trends may arise from regulatory emphasis, such as the continuing focus on data quality, or from changes in technology such as the growing emphasis on various forms of e-communication, and methods of engaging with scheme members.

2.2.3 Within the LGPS the current funding positions have consistently moved to being in significant surplus', at the Fund level, rather than deficit. This presents new challenges for Funds in trying to maintain high funding levels, but it can allow a more flexible approach to work with employers and the actuary. As we work the through 2025 triennial valuation, maintaining stable and affordable contributions whilst in surplus, will be the key points of discussions for key stakeholders.

2.2.4 In November 2024 the Government launched their *LGPS Fit For the Future* Consultation. This consultation sets out proposals for a range of reforms focussed in three main areas:

2.2.4.1 LGPS Investment Pooling

2.2.4.2 Local Investment in the UK

2.2.4.3 Governance of Funds and Pools

2.2.5 The Authority has responded to the consultation and this can be found on our website at [News & information].

2.3 The Economic Environment

2.3.1 The wider economic environment impacts the Fund in terms of both its assets and its liabilities. Clearly the underlying economic environment impacts the performance of investments in the financial markets while key metrics such as inflation and interest rates feed into the actuarial calculations which determine the Fund's liabilities.

2.3.2 It remains incredibly difficult to forecast the movements in key economic indicators therefore it makes sense for this strategy to use assumptions based on key factors already reflected in the financial framework such as the assumed level of investment return included in the actuarial valuation. This is not a protection against any forecast being wrong – it almost certainly will be – but it means that the strategy is based on an underlying set of assumptions that have been subject to a more rigorous set of testing than it would be possible to achieve internally.

2.4 The Starting Point

2.4.1 The starting point has a significant impact on any strategy. In this case, the starting point is reflected in the current cost base for the Authority's operations and its fund management arrangements and the level of funding within the scheme which, based on the 2022 valuation results, reflects a significant improvement on the previous 2019 position.

2.4.2 In some senses the starting point is possibly more influential than other aspects of the context, for example achieving full funding, or close to full funding leads to an alteration to the strategic asset allocation moving funds out of equities into less volatile, preferably income generating assets. Unfortunately, these tend to be more expensive assets to manage thus a change in the cost base is almost inevitable. Whether the focus is on net of fees return or gross fees is irrelevant because both will ultimately have the same impact on the value of and performance of the Fund.

2.4.3 For the South Yorkshire Pension Fund, the starting point is, based on the 2022 valuation results, full funding. This impacted employers' deficit recovery contributions, which in many cases are now a surplus position. The current valuation position informed the review of the Investment Strategy Statement, published in March 2023.

2.4.4 The 2025 triennial valuation will be completed during the year ahead and is anticipated to show continued improvement in the funding position for the Fund as a whole which will inform the setting of employer contribution rates for 2026/27 to 2028/29 and the next review of the Investment Strategy Statement to be published by March 2026.

3. Financial objectives

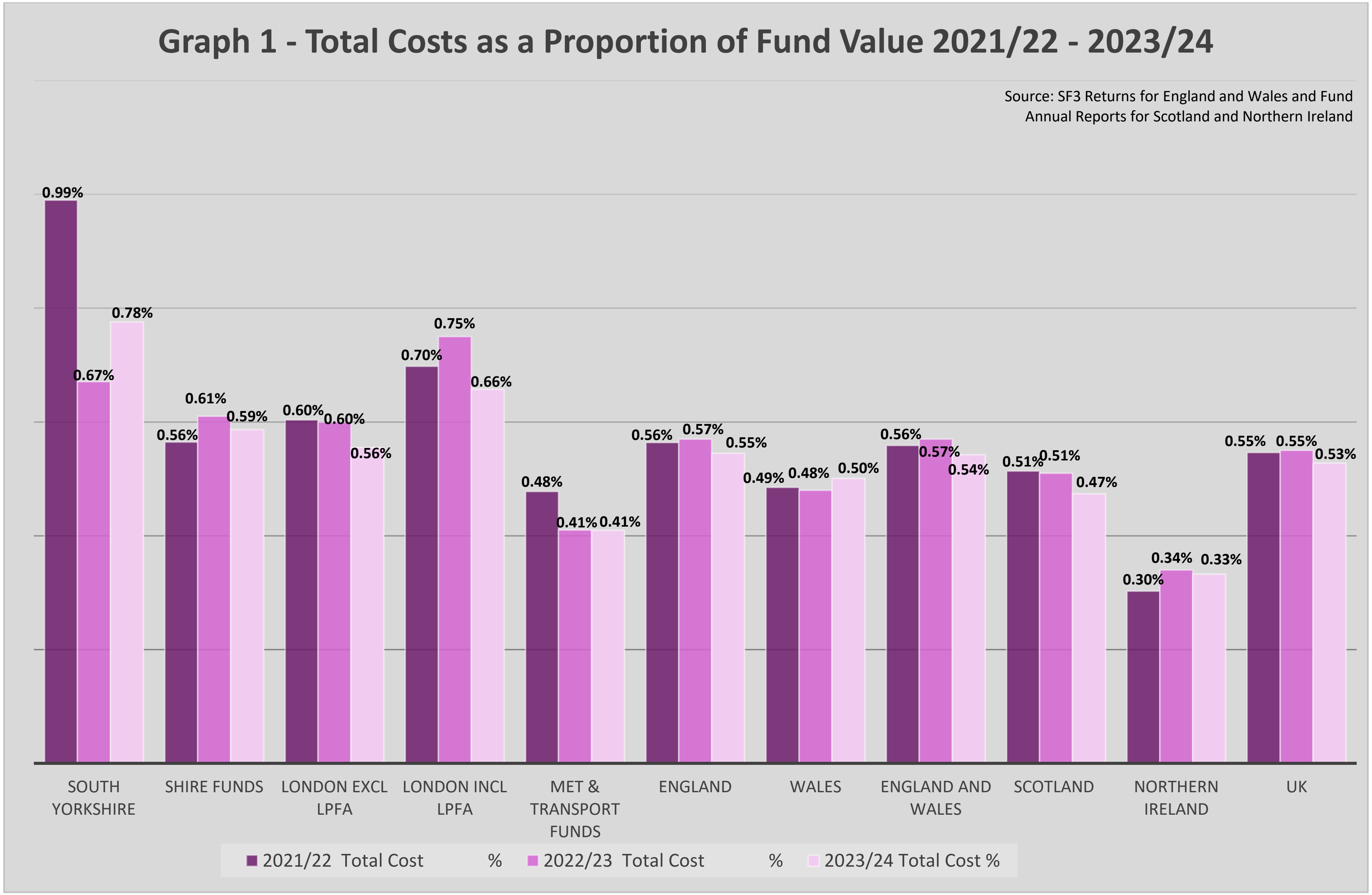
3.1 Financial Objectives

3.1.1 For any strategy it is important to understand what you are aiming to achieve. This is no less true of this MTFS, and this section sets out objectives in relation to the control of costs in the overall context of the Fund. In order to set these objectives, we need to understand how SYPA's costs compare to the rest of the LGPS funds.

3.2 Comparative Costs

3.2.1 The only real source of data to compare SYPA with other LGPS funds is the annual SF3 return completed by all English and Welsh funds and submitted to MHCLG. Similar data for the Scottish and Northern Irish funds can be added to this from fund annual reports to give a UK wide comparison. There are flaws with this data, particularly regarding the disclosure of non-invoiced investment costs, which are gradually, but very slowly, being worked out of the system. However, it is the only comprehensive data set available and does give a broad indication of how SYPA compares with other LGPS funds.

3.2.2 Chart 1 below shows how SYPA's total costs compare with those of both the totality of other LGPS funds and of particular types of fund, for the last three financial years from 2021/22 to 2023/24.


Graph 1 - Total Costs as a Proportion of Fund Value 2021/22 - 2023/24
Source: SF3 Returns for England and Wales and Fund Annual Reports for Scotland and Northern Ireland
0.99%
0.67%
0.78%
0.56%
0.61%
0.59%
0.60%
0.60%
0.56%
0.70%
0.75%
0.66%
0.48%
0.41%
0.41%
0.56%
0.57%
0.55%
0.49%
0.48%
0.50%
0.56%
0.57%
0.54%
0.51%
0.51%
0.47%
0.30%
0.34%
0.33%
0.55%
0.55%
0.53%
SOUTH YORKSHIRE
SHIRE FUNDS
LONDON EXCL LPFA
LONDON INCL LPFA
MET & TRANSPORT FUNDS
ENGLAND
WALES
ENGLAND AND WALES
SCOTLAND
NORTHERN IRELAND
UK
2021/22 Total Cost %
2022/23 Total Cost %
2023/24 Total Cost %

3.2.3 The chart shows an increase in SYPA costs in 2023/24, compared to the costs in 2022/23, and lower than the exceptionally high costs in 2021/22. The primary driver for the increase in the SYPA costs for 2023/24, relates to investment costs, specifically the management and performance fees on the alternative assets we invest in. Alternative assets performed well during 2023/24, and the associated costs with these assets account for c.80% of our investment management costs. Although the Fund has higher costs in 2023/24 than other Funds within the chart, this is to be expected due to the alternative assets cost profile described.

3.2.4 Additionally, it is important to consider the SYPA costs compared to other Funds in the context of the drive to greater cost transparency and improved reporting of investment management expenses that are not invoiced but deducted at source from Net Asset Value (NAV). Since 2018/19 SYPA, with the aid of Border to Coast, has made significant progress in this regard, that so far is outpacing the progress of other Funds. It should also be noted that unlike other LGPS funds, SYPA is not able to fully recover VAT resulting in a tax drag, which in 2023/24 amounted to £0.52m, and was c.£0.36m in the year before that. It should be noted that through 2024/25 a piece of work has been completed on a review of the VAT treatment, which should result in savings from 01 April 2025.

3.2.5 Whilst our progress on cost transparency appears to have started earlier and moved more quickly, it is evident that a similar impact is now starting to be seen within some of the other Funds' costs consistently within the chart; and it is anticipated this will continue, making these comparisons more useful going forward as they will be on a more 'like-for-like' basis.

3.2.6 The following table presents more detail of the investment costs and shows the impact increasing alternative investment costs had on the South Yorkshire Pensions Authority figures between 2022/23 and 2023/24.

Investment Management Expenses - Breakdown	**2022/23** **£0**	**2023/24** **£0**
South Yorkshire Pensions Authority	31,284	39,943
Border to Coast Pensions Partnership	30,055	37,534
Abrdn	1,292	996
Bidwells	41	30
Custody Fees	60	57
Total Investment Management Expenses	**62,732**	**78,560**
Fund Value at 31 March: £000	**10,201,980**	**10,984,042**
Investment Costs as Percentage of Fund Value %	**0.61%**	**0.77%**

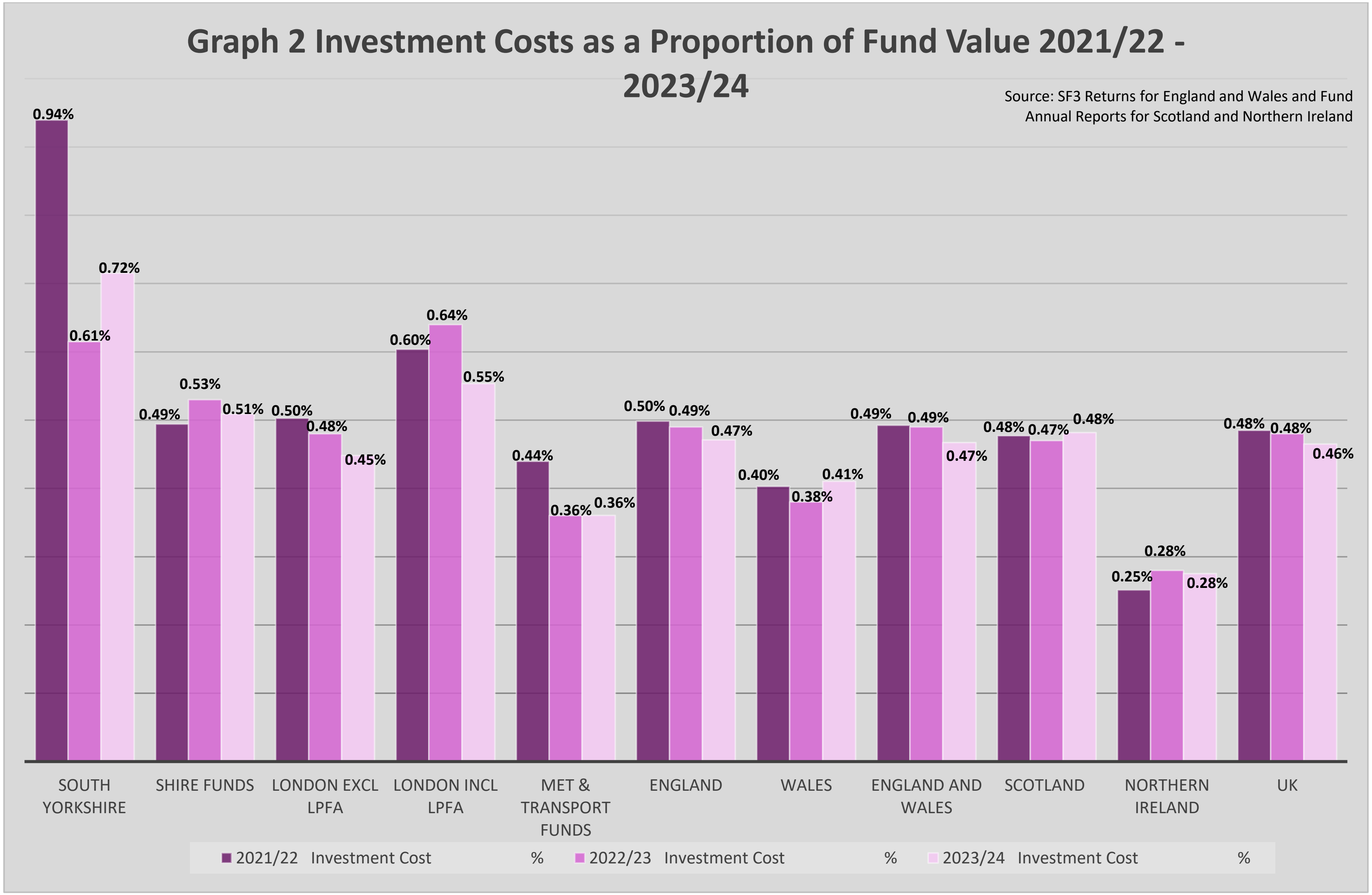
3.2.7 The Authority is confident that our performance in controlling actual costs overall remains strong; but there is no room for complacency, and we continue to closely monitor this area in light of the following factors that are driving cost increases:

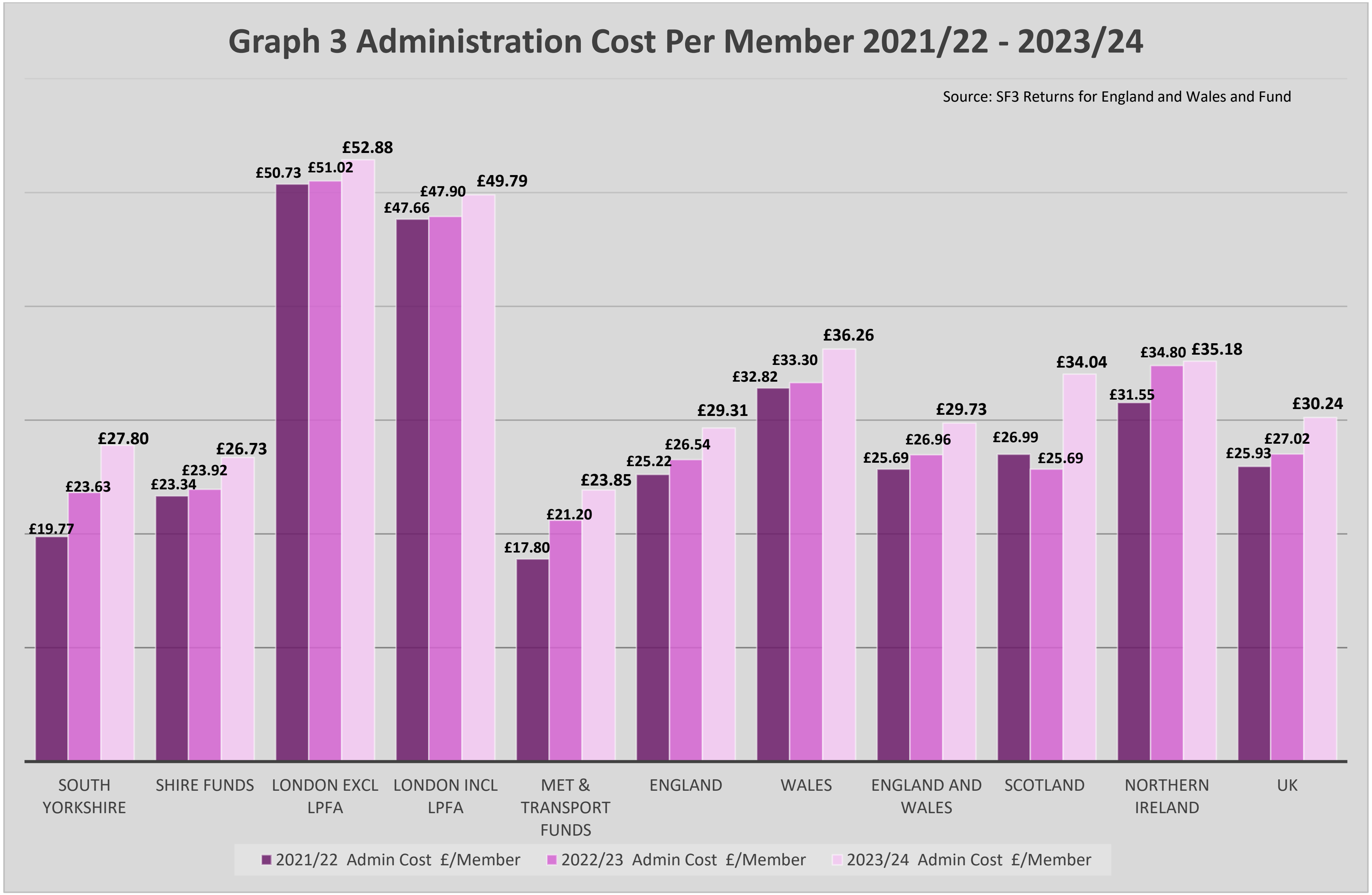
- The Fund's strategic asset allocation continues to move more of the portfolio into alternative investments which are unlisted assets such as private equity and infrastructure, in general these assets tend to be more expensive to manage. The impact of this investment strategy is evidenced in Chart 1 and referenced at 3.2.3.

- The Government's pooling initiative has resulted in SYPA's listed assets being managed within pooled structures provided by Border to Coast which, while cheap in comparison to external managers, are more expensive than the previous, admittedly unsustainable, in-house arrangements. As Border to Coast continues to evolve and meet the partner funds' ever increasing investment product requirements, the cost base continues to significantly increase. Over time it is expected that more of these products will be more widely utilised spreading the cost base. The cost base is unlikely to decrease, however the sharp yearly increases should slow as the pool matures.

3.2.8 There are specific factors which might be expected to give rise to SYPA having a higher-than-average cost base, in particular the fact that it is a stand-alone pension organisation bearing its own corporate overheads, rather than sharing them with a council. This has been borne out by the data in recent years and will be kept under review as part of the budget process going forward, particularly as the Authority continues to grow and invest in the development of the organisation and governance.

3.2.9 The total cost shown in Chart 1 can be analysed in more detail by looking at the following two charts which separate out SYPA's Investment and Administration costs and how these compare with the rest of the Local Government Pension Scheme across the UK.


Graph 2 Investment Costs as a Proportion of Fund Value 2021/22 - 2023/24
Source: SF3 Returns for England and Wales and Fund Annual Reports for Scotland and Northern Ireland
0.94%
0.61%
0.72%
0.49%
0.53%
0.51%
0.50%
0.48%
0.45%
0.60%
0.64%
0.55%
0.44%
0.36%
0.36%
0.50%
0.49%
0.47%
0.40%
0.38%
0.41%
0.49%
0.49%
0.47%
0.48%
0.47%
0.48%
0.25%
0.28%
0.28%
0.48%
0.48%
0.46%
SOUTH YORKSHIRE
SHIRE FUNDS
LONDON EXCL LPFA
LONDON INCL LPFA
MET & TRANSPORT FUNDS
ENGLAND
WALES
ENGLAND AND WALES
SCOTLAND
NORTHERN IRELAND
UK
2021/22 Investment Cost %
2022/23 Investment Cost %
2023/24 Investment Cost %


Graph 3 Administration Cost Per Member 2021/22 - 2023/24
Source: SF3 Returns for England and Wales and Fund
£19.77
£23.63
£27.80
£23.34
£23.92
£26.73
£50.73
£51.02
£52.88
£47.66
£47.90
£49.79
£17.80
£21.20
£23.85
£25.22
£26.54
£29.31
£32.82
£33.30
£36.26
£25.69
£26.96
£29.73
£26.99
£25.69
£34.04
£31.55
£34.80
£35.18
£25.93
£27.02
£30.24
SOUTH YORKSHIRE
SHIRE FUNDS
LONDON EXCL LPFA
LONDON INCL LPFA
MET & TRANSPORT FUNDS
ENGLAND
WALES
ENGLAND AND WALES
SCOTLAND
NORTHERN IRELAND
UK
2021/22 Admin Cost £/Member
2022/23 Admin Cost £/Member
2023/24 Admin Cost £/Member

3.2.10 It is evident from Chart 3 that Administration costs for the Authority remain at the lower end of the spectrum of costs. Despite being one of the cheaper costs there is a clear pathway of increasing costs, which is expected to continue through 2025/26 as shown in the accompanying budget report for 2025/26. This is due to the embedding of plans to improve organisational resilience and stability and ensuring the organisation is well resourced and equipped to meet our corporate objectives.

3.2.11 When comparing the two charts it is clear that the main driver of the increased fund costs in 2023/24 came from the investment costs, and in particular the alternative investment associated costs, referenced at 3.2.3. The nature of the investment asset allocation means that we now sit at the top end of costs for the Funds in Chart 2.

3.2.12 In regard to Administration, SYPA is benefitting from the economy of scale that comes from serving a large fund, while the much smaller London funds clearly see the diseconomies which arise from servicing much smaller funds.

3.2.13 During the last year we participated in benchmarking exercises as part of a service delivered by CEM. Benchmarking of our 2023/24 costs for both Pensions Administration and Investments was undertaken. Participating in these exercises run by CEM provides a better context for comparison that encompasses both costs and performance / quality and using a relevant peer group of comparators in both the LGPS and outside, including globally. The results showed that we are a relatively low cost Pensions Administration function, whilst simultaneously providing a higher service score than the median of our peers. The investment report results showed that we are outperforming our peers on value added, however our costs are higher than the benchmark. The full reports and results of both exercises will be presented in a workshop session for both Authority and Local Pension Board Members on 20 February 2025. An action plan informed by the results will be implemented through 2025/26. The CEM benchmarking exercise will be completed again in 2025/26, to track our performance and development relative to our peers.

3.3 Financial Objectives

3.3.1 The Authority needs to set financial objectives which focus on the key streams of activity within its operations, administration and investment while bringing these together to focus on total cost. These objectives will mirror the financial constraint imposed on the district councils by the grant system, thus ensuring that SYPA is taking no more from the pension fund for its running costs than is necessary.

3.3.2 At the same time the Authority must be careful, as a small organisation, not to "shoot itself in the foot" by setting unachievable financial objectives which generate relatively large-scale savings targets, which could not be delivered without impacting the customer experience.

3.3.3 For Pensions Administration, the financial objective may be framed as follows:

"The annual increase in the budgeted cost per member for administration functions will be limited to an index made up of 71% local government forecasted pay and 29% November CPI."

3.3.4 This limits the rate of increase in costs while allowing the benefits of any increase in productivity to be re-invested in the quality of the service provided to members, which is broadly in line with the Authority's overall objectives. Such an approach also provides some buoyancy in the level of resources available in order to address the rising number of members and employers within the Fund. A similarly expressed objective could be placed on the Authority's overall operating budget, which would place a helpful constraint on corporate costs. These two objectives are illustrated in the table below.

Cash Limits for Operating Budget	2025/26 Baseline £ / Member	2026/27 Cash Limit[2] £ / Member	2027/28 Cash Limit[2] £ / Member
Administration Service[1]	£34.53	£35.46	£36.42
Authority Operational Budget[1]	£48.36	£49.67	£51.01

Notes

1. The cost per member is based on the relevant totals included within the Authority's operational budget as presented for approval at the Authority's February 2025 meeting. The equivalent figures for SF3 reporting purposes will be slightly higher because they additionally include non-recoverable VAT which is not part of the Authority's total operating budget.

2. The future years' cash limits are calculated by applying an inflationary increase of 2.7% which comprises 3.0% Local Government Pay Inflation and 2% CPI Inflation, weighted in accordance with the financial objective set out above.

3. Membership is assumed to increase at 2% per year in line with recent trends.

3.3.5 Given that, broadly, investment costs have a relationship to the value of invested assets, it would be sensible to have an objective which recognises this, but also recognises the fact that the Authority's investment strategy is to move out of listed into unlisted and more expensive assets, and also that the Authority's overall objective is to achieve the best possible net of fees risk-adjusted returns meeting the actuarial return objective (currently c. 4.45%pa). This means that any financial objective around investment costs should not place an artificial constraint which prevents the Authority from making the right investment decisions.

3.3.6 Given the information set out above, framing an objective in relation to investment costs is quite difficult. However, something along the following lines could be appropriate:

"In any financial year, the Authority will seek to limit investment management expenses to a level less than the median in the CEM benchmarking comparator group."

3.3.7 The 2024/25 CEM Investment Benchmarking report showed our costs were above the benchmark, a total of 5.4bps above, after adjusting for the asset mix. As a result of this information work is taking place to understand the reason for our costs being above the benchmark. Following the investigation an action plan will be put in place during 2025/26.

3.3.8 Given the limitations to an LGPS comparator set out above this metric provides a more realistic target which is based on a much wider international peer group and reflects full cost transparency for all participants, thus there will be a like for like comparison. Using the CEM measure also means that the Authority will have access to data which will allow it to understand how and why its costs differ from others within the peer group.

3.3.9 The targets set out in these financial objectives will be reviewed each year in the context of their impact on the Authority's overall financial position and their impact on the ability of the Authority to deliver its corporate objectives, while still driving improvements in efficiency. In addition to these objectives which can easily be measured in budget setting and which in effect place cash limits on the Authority's budget, a number of financial performance measures related to comparative costs will be part of the suite of Corporate Strategy measures.

4. Financial forecasts

4.1 Forecast Assumptions

4.1.1 Any financial forecast is based on a series of assumptions. The key assumptions are set out below:

- **Pay –** Pay awards have been assumed to average 4% in 2025/26 and 3% over the remaining period of the MTFS, which is in line with the average of headline increases from the most recent local government pay awards.
- **Prices -** CPI inflation at September 2024 was 1.7% which will be the increase applied to active and deferred pension accounts and pensions in payment for 2025. The operating budget for 2025/26 incorporates price inflation for the most significant contracts at the relevant CPI or RPI rate per the contract terms. With the current CPI volatility, the future rates for the remainder of the medium term have been based on estimates specific to the area being projected.
- **Contribution Income and Benefits Payments–** The forecast is produced by the actuary for both income and expenditure, based on the latest valuation results.
- Investment returns are assumed to be in line with actuarial assumptions.
- External investment management costs have been separately analysed in order to produce the forecast based on experience to date, plus known changes and estimated changes as a result of continued transition to Pooling.

4.1.2 Based on current knowledge, these assumptions are reasonable. We will continue to develop and refine our forecasting techniques over the period to provide a robust basis for resource planning.

4.2 Operational Budget Forecast

4.2.1 The forecast for the operational budget is summarised in the table below:

South Yorkshire Pensions Authority Operating Budget	2024/25 Forecast Outturn £	2025/26 Budget £	2026/27 Estimate £	2027/28 Estimate £
Pensions Administration	3,573,310	3,961,370	4,075,110	4,192,170
Investment Strategy	622,350	666,630	683,920	701,680
Resources	1,390,000	1,585,950	1,633,020	1,681,490
ICT	1,489,150	1,785,060	1,830,970	1,878,270
Central Costs	829,200	855,370	870,390	885,660
Democratic Representation	132,540	156,100	160,400	164,810
Unfunded Liabilities	332,000	312,000	317,300	322,690
Subtotal Revenue Expenditure:	**8,368,550**	**9,322,480**	**9,571,110**	**9,826,770**
Capital Expenditure	98,500	135,000	60,000	60,000
Contribution to/from Reserves	130,000	(94,650)	60,000	60,000
Levy on District Councils	(332,000)	(312,000)	(317,300)	(322,690)
Total Charge to Pension Fund	**8,265,050**	**9,050,830**	**9,373,810**	**9,624,080**

4.2.2 The budget setting and medium-term financial strategy (MTFS) preparation for 2025/26 to 2027/28 has taken place in the context of a number of drivers for growth in cost that are explained in further detail in the Budget report presented alongside this Strategy.

4.2.3 The budget for the 2025/26 year ahead reflects continued emphasis on equipping the organisation for meeting the challenges expected in the next three years as detailed in the Corporate Strategy elsewhere on the agenda. After having invested in the last two years in significant additional staffing resources, the total staffing establishment in 2025/26 remains unchanged overall.

4.2.4 The requirements and goals around addressing backlogs, making greater use of automation, improving data quality and connecting to the Pensions Dashboard, have resulted in a need for increased investment in ICT, for the pension administration system and associated staffing and consultancy in particular.

4.2.5 The estimates for the remainder of the Medium Term set out above are based on projecting the 2025/26 budget forward, removing the one-off items from that year, and adding inflationary increases as necessary.

4.2.6 The key risks and uncertainties in relation to this forecast are as follows:

- Pay settlements and inflation running at a higher level than assumed in the forecast. This is clearly a risk, although the current wider local government and public sector finance context has been heavily impacted by inflation and a range of budget pressures. The 2024/25 pay settlement was agreed at a lower level than had been used for setting the salaries budget. Based on the limited information available at this time, we expect this to be 4% in 2025/26; we have forecast the assumption to return to 3% from 2026/27, based on the trajectory of the inflation rates. The increase of 4% in our salaries budget for 2025/26 has been set prudently to cover any impact of higher than expected public sector pay settlements and taking account the volatile nature of inflation over the last few years.

- Deterioration in budgetary control. Budgetary controls and processes are robust and well-embedded, and subject to regular audit review. The continuing development of the finance system will allow us to increase our levels of budgetary control with more detailed and comprehensive reports to be developed during the coming financial year along with training and allocation of specific budget responsibility to service managers. There is therefore no indication of any likelihood of deterioration. The controls in this regard are also subject to internal audit review on a regular basis, which provides assurance on both their adequacy and their application.
- Loss of external income. This is mitigated through prudent budgeting, for example not including any assumptions around additional software sales which tend to be sporadic, and through securing longer term agreements with customers with staggered end dates so that not all agreements come to an end at the same time.

4.2.7 The operational budget is relatively low risk and is relatively simple in comparison to the Fund Forecast, being many times smaller and much less volatile. Consequently, while it understandably receives specific scrutiny as a cost that, in effect, has to be borne by participants in the Fund, variations are unlikely to have a material impact on the overall standing of the Fund.

4.3 Pension Fund Forecast

4.3.1 The table below presents a summary of the forecast for the Pension Fund for the current and coming three years.

South Yorkshire Pension Fund Financial Forecast	Actual 2023/24 £m	Forecast 2024/25 £m	Forecast 2025/26 £m	Forecast 2026/27 £m	Forecast 2027/28 £m
Dealings with members, employers and others directly involved in the scheme:					
Contributions receivable & transfers in from other pension funds	-422	-283	-277	-286	-296
Benefits payable and payments to or on account of leavers	416	449	355	369	384
Net (additions) / withdrawals from dealings with members	**-6**	**166**	**78**	**83**	**88**
Management expenses	85	99	101	104	106
Net returns on investments	-861	-388	-673	-704	-733
Net (increase)/decrease in the Fund during the year	**-782**	**-123**	**-494**	**-517**	**-539**
Net Assets of the Fund at 1 April	-10,202	-10,984	-11,107	-11,601	-12,118
Net Assets of the Fund at 31-March	**-10,984**	**-11,107**	**-11,601**	**-12,118**	**-12,657**
Management Expenses as Percentage of Average Net Assets	0.77%	0.89%	0.87%	0.86%	0.84%

4.3.2 In the first year of the forecast, investment costs (including those within the operational budget) are at 89 bps and are expected to remain around this figure at 84 bps by 2027/28. The forecast costs have increased from the 2023/24 actual costs, due to higher performance fees and an increase in the Authority budget, which are both forecast to stabilise at a higher level. It should also be borne in mind that this forecast is produced on a fully transparent basis and therefore comparisons with other funds will not necessarily be valid. These forecasts will be reviewed against benchmark data when available.

4.3.3 The forecast for the Pension Fund is much more susceptible to forecast error than that for the operational budget. In particular, while there is some consistency in terms of data from previous years the Authority cannot control the numbers of members retiring in any year or the decisions which they make in relation to commutation of pension to lump sum. Similarly, the numbers of deaths amongst the membership of the Fund and the numbers of members transferring either into or out of the Fund are changeable and outside the control of the Authority. While the forecasts are based on the best information available using the actuarial results and historic information, as adjusted for known one off events, and inflation where appropriate, there is a significant amount of variability from year to year which it is extremely difficult to forecast.

4.3.4 The forecast Fund value at the end of the current year reflects the challenging and changing external investment environment that we have experienced through 2023/24 to 2024/25. The external pressures continued to ease which has helped project an increase in the Fund valuation.

4.3.5 The important message in the above forecast is the anticipated net withdrawal from the Fund in each year for dealings with members, this results in a significant increase in the requirement for the harvesting of investment income. This trend will be an ongoing challenge for the fund now that we have matured, and it is not anticipated that this scenario will reverse.

4.3.6 The key risks and uncertainties in the Fund Forecast include the following:

- Financial market volatility, which will impact on both the asset value of the Fund and on the level of investment income and large swings in asset value will result in significant variation from the forecast. This is a constant risk for pension funds. Steps have been taken, through the broad asset allocation, to reduce the potential volatility in the Fund but the risk of events which might cause significant market dislocation remains and, if anything, is at the current time heightened as a result of continuing tensions around international trade.
- A further significant wave of service reductions across major employers resulting in workforce reductions, which have the effect of reducing the number of active members contributing and further increase the imbalance between contributions received and benefits paid. Other than changes in the Strategic Asset Allocation to focus on income generation and delivering investment returns above actuarial assumptions to build resilience into the Fund, there are limited options available to the Fund in this area.
- Failure of pooling to contain investment costs. While SYPA is not expecting to make any significant savings as a result of pooling, in the short to medium term the expectation is that the process of pooling will contain costs. However, should the Pool fail to achieve its objectives in this area there will be an impact on net of fees returns. To date, the evidence is that in this respect Border to Coast are delivering in line with their plan and, should the initial moves of partner funds into the range of internally managed funds continue or increase, there may well be the opportunity for costs in relation to listed assets to reduce towards the pre-pooling levels, although they are very unlikely to reach those artificially low levels. If the Pool were to fail to deliver cost savings as anticipated, then further mitigation will come through the collective action of the 11 partner funds to address any underperformance.

4.3.7 This forward forecast indicates a challenging position when viewed in the context of market conditions and uncertainty as at the time of writing. All economic forecasts indicate that we are continuing to slowly move away from the high inflationary environment, combined with lower returns for a protracted period, which is reflected in the actuarial assumptions used in producing the forecast. This results in the need for the Fund and the Pool to focus on securing good assets and sustained income streams within its revised strategic asset allocation.

5. Policy on reserves

5.1 Reserves

5.1.1 Reserves are funds that are set aside for two main reasons:

- A ‘just in case’ risk materialises that requires additional resources; or
- To save up for a particular project.

5.1.2 All of SYPA’s costs are met by the Pension Fund therefore, unlike a local authority, the first contingency argument for holding reserves does not hold as costs incurred, for example, as a result of a building fire, would simply fall to the Pension Fund which is about 1,200 times the size of the Authority’s budget and such costs are therefore unlikely to be material.

5.1.3 The argument for holding reserves to save up for things does, though hold. In order to save up in this way, managers will have had to underspend their budgets; the ability to use these saved funds in the future acts as an incentive to manage within the available resources.

5.1.4 However, there is a balance to be struck as reserves could be allowed to accumulate to a level where they became significant in the context of the Authority’s budget at which point, they would in effect be depriving the Fund of cash to invest. Consequently, some limitation on the level of reserves is necessary to maintain this balance. There is a limit of 10% of the operating budget, the policy is as follows:

“The Authority will maintain its operational revenue reserves at a level equivalent to no more than 10% of its operational budget, the establishment of new reserves will be approved by the Authority on the recommendation of the Chief Finance Officer, and the level of reserves will be reviewed by the Chief Finance Officer each year as part of their report on the final accounts of the Authority.”

5.1.5 The forecast outturn for 2024/25 after transfers to reserves sees the Authority returning to a minor budget underspend position. Through 2024/25 strong budget control has enabled the Authority to move significant resources to reserves in order to build resilience for future needs.

5.1.6 The forecast level of reserves for the medium term are as shown in the following table.

South Yorkshire Pensions Authority Earmarked Reserves	**Forecast Balance at 31 March 2025 £**	**Forecast Balance at 31 March 2026 £**	**Forecast Balance at 31 March 2027 £**	**Forecast Balance at 31 March 2028 £**
Operational Revenue Reserves:				
Corporate Strategy Reserve	135,990	78,990	108,990	138,990
ICT Reserve	68,030	50,380	60,380	70,380
Capital Projects Reserve	74,290	54,290	74,290	94,290
Total Reserves	**278,310**	**183,660**	**243,660**	**303,660**
Reserves as % of Budget	*3.4%*	*2.0%*	*2.6%*	*3.2%*

5.1.7 The above table illustrates that the current plans and forecasts involve drawing down from the revenue reserves in 2025/26, followed by a net contribution into the reserves in 2026/27 and 2027/28. The earmarked reserves will continue to be kept under review and transfers to and from each reserve will be reported to the Authority for approval based on a recommendation from the Chief Finance Officer as required, through the quarterly reporting of management accounts and financial forecasts.