

# 2026 - 2029

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# 1. Foreword

## 1.1 Foreword to the Medium-Term Financial Strategy 2026/27 to 2028/29

- 1.1.1 This Medium-Term Financial Strategy (MTFS) has been prepared by the South Yorkshire Pensions Authority and covers the three-year period from April 2026 to March 2029. Over this period, the Authority will continue to support the delivery of its Corporate Strategy, building on recent service and organisational improvements, while completing the transition of the Authority's remaining investment assets into the pooling arrangements provided by the Border to Coast Pensions Partnership
- 1.1.2 The MTFS addresses both the costs of operating the Authority and the income and expenditure of the Pension Fund. While routine Authority running costs, such as staffing and support services, can be forecast with a reasonable degree of certainty, projecting Pension Fund income and expenditure is inherently more complex due to market conditions, investment performance and demographic factors.
- 1.1.3 The strategy is underpinned by a number of key assumptions, which are clearly identified throughout this document. These assumptions are kept under regular review through ongoing budget monitoring and are refreshed as part of the annual update of the MTFS to ensure that the strategy remains relevant and robust.
- 1.1.4 The MTFS, together with the annual budget, represents the financial expression of the Authority's policy and strategic objectives as set out in the Corporate Strategy. As such, the MTFS is reviewed and updated each year to reflect changes in priorities, risks and the wider operating environment.
- 1.1.5 Although the Authority is less directly exposed to some of the financial pressures facing the wider public sector than the Scheme employers, it prioritises responsibly managing its resources prudently and efficiently. The Authority must ensure that its expenditure supports strong governance, effective administration and sound investment decision-making, without adversely impacting the overall performance or sustainability of the Pension Fund. This MTFS sets out how the Authority intends to achieve these aims in a clear and transparent manner.

## 2. Setting the context for the Medium Term Financial Strategy

### 2.1 Public Sector Finance

- 2.1.1 The public sector financial environment remains a key factor shaping the context within which this Medium Term Financial Strategy is developed. Issues such as national pay awards directly influence both elements of the Fund's liabilities and the Authority's operating cost base, therefore they have a material impact on medium term financial planning.
- 2.1.2 Decisions on local government finance affect both the Authority and the Pension Fund. Historically, growth in local government funding has tended to lag wider public sector expenditure, while pay awards have broadly mirrored headline public sector settlements. This dynamic continues to place pressure on local authority budgets and, by extension, on scheme employers.
- 2.1.3 Inflationary pressures and wider demand-led cost increases remain significant challenges for local government. Although recent financial settlements have included additional funding, including for social care, a substantial proportion of this is reliant on council tax increases. Overall, the financial environment for local government remains constrained, with limited flexibility for absorbing further cost pressures.
- 2.1.4 The national pay award for 2025/26, agreed in July 2025, provided a 3.2% increase to each scale point. This followed three consecutive years of awards set at a fixed £ amount on each scale point (up to SCP43) which were proportionally more costly to employers in percentage terms, given the higher proportions of staff at the lower end of the pay scale. The move to a percentage-based award does not reduce overall pay pressure and when combined with ongoing inflation, suggests that this level of pay awards are likely to persist in the short to medium term.
- 2.1.5 Given the pattern of recent pay settlements, it is reasonable to assume that headline pay increases in the medium term may remain in the range of 3–4%. This is likely to require many employers, including schools and colleges, to continue identifying year-on-year savings. These pressures have wider implications for the Pension Fund, including impacts on employer affordability, workforce dynamics, early retirements, contribution income, benefit payments and strain costs. These factors must be reflected in forecasts of Fund income and expenditure and considered as part of contribution rate discussions at each actuarial valuation.

### 2.2 The Pensions Sector

- 2.2.1 Developments in the wider pensions sector influence the Authority and the Fund, albeit often indirectly. For example, changes in funding levels across private sector defined benefit schemes can affect demand for specific asset classes, such as index-linked gilts, potentially impacting asset prices, availability and the Fund's ability to invest efficiently.
- 2.2.2 Broader sector trends also tend to shape developments within the LGPS over time. These include regulatory priorities, such as the continuing emphasis on data quality and governance, as well as technological change, including increased use of digital communication and new approaches to member engagement and service delivery.
- 2.2.3 Within the LGPS, funding positions have continued to strengthen, with many funds now reporting significant surpluses rather than deficits. This creates new strategic challenges, including how best to maintain strong funding levels while managing risk and supporting employer affordability. As anticipated, the 2025 triennial valuation has resulted in net reductions in employer contribution rates across the Fund.

- 2.2.4 From April 2026, Phase One of the Access and Fairness changes will be implemented. These reforms include changes relating to survivor benefits and death grants, gender pension gap benefits and reporting, the McCloud remedy, abolition of lifetime allowance protections, five-year refunds and other related amendments. These changes will have implications for the Authority's pension administration workload, systems and member communications, all of which need to be considered within the MTFS.

## **2.3 The Economic Environment**

- 2.3.1 The wider economic environment continues to influence the Fund through its impact on both assets and liabilities. Investment performance is affected by financial market conditions, while inflation and interest rates are key inputs into actuarial assumptions used to value the Fund's liabilities.
- 2.3.2 Forecasting movements in economic indicators remains highly uncertain. Accordingly, this strategy is based on assumptions that are already embedded within the actuarial valuation framework, including assumed long-term investment returns. While this does not eliminate forecasting risk, it ensures that the MTFS is grounded in assumptions that have been subject to robust independent testing.

## **2.4 The Starting Point**

- 2.4.1 The starting position is a critical factor in shaping the MTFS. For the Authority, this includes the current cost base for administration and fund management, as well as the financial position of the Pension Fund itself. Based on the 2025 actuarial valuation, the Fund's overall funding position has improved significantly compared with the 2022 valuation; from 119% to 142%.
- 2.4.2 The valuation has resulted in reductions to employer contribution rates. This is forecast to further increase the net cash outflows from the Fund (the difference between cash received from contributions and cash to be paid out for benefits), which will need to be met by harvesting income generated from the Fund's investments and the means of increasing the level of available income on this scale will be a key debate within the work to revise the investment strategy which is currently being undertaken.
- 2.4.3 The Fund's improved funding position has direct strategic implications. A higher level of surplus and reductions in employer contribution rates leads to considerations for managing investment risk and different options in regard to the strategic asset allocation, with an emphasis on a shift towards lower-volatility and income-generating assets. These asset classes, while supportive of funding stability, are typically more expensive to manage, leading to an increase in the Fund's cost base. In this context, the focus on net-of-fees returns remains central, as both gross and net outcomes ultimately affect funding and contribution requirements.
- 2.4.4 The 2025 valuation outcome will inform the current review of the Investment Strategy Statement, due for publication by 31 March 2026, and provides an important foundation for the financial assumptions set out in this MTFS.



### 3. Financial Objectives

#### 3.1 Introduction

- 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 how we are looking to achieve Value for Money (VFM). To establish how we will achieve VFM, we need to understand how we are performing in comparison to similar LGPS funds.

#### 3.2 Comparative Analysis

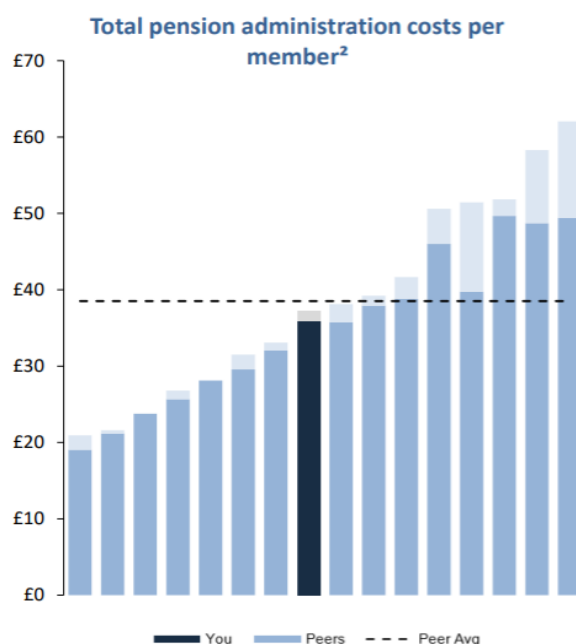
- 3.2.1 In previous strategies the comparator data used to compare SYPA with other LGPS funds was the annual SF3 return completed by all English and Welsh funds and submitted to MHCLG.
- 3.2.2 Whilst SF3 returns remain a useful source of nationwide data, they provide only limited insight into efficiency and VFM due to only capturing cost information without the context of service quality. Similarly, the wide range of size and types of Fund across England and Wales included in SF3 data makes it difficult to draw meaningful comparisons against which to benchmark the level of our own costs.
- 3.2.3 Therefore, the Authority participates in two separate benchmarking exercises – one for Pensions Administration and one for Investments. Both are delivered by a company called CEM. Within each exercise, our costs and our data on service provision and outcomes are captured and compared to a suitable peer group comprising other LGPS funds as well as funds from other pension schemes. As such, the CEM benchmarking results offer a more robust and transparent assessment, adjusting for scale, capturing full investment costs and linking expenditure directly to service quality and outcomes. This provides a stronger and more reliable foundation for medium-term financial planning.

#### 3.3 CEM - Pensions Administration 5-year period to 31st March 2025

##### Cost

- 3.3.1 The diagram and chart below show how the Authority's Pension Administration costs compare with the peer group for 2024 and 2025.

	<u>£ 000s</u>		<u>£ per member</u>		
	You 2025	You 2024		You 2025	You 2024
Project costs	236	174	3.42	1.30	0.97
Business-as-usual costs	6,514	5,809	35.09	35.95	32.29
Total administration costs	6,750	5,983	38.51	37.26	33.26



- 3.3.2 The pension administration costs of £37.26 per member were £1.26 below the adjusted peer average of £38.51. To make a fairer comparison CEM adjust (or 'normalise') business-as-usual peer costs to eliminate the effect of economies of scale. This places the Fund in the lower-cost quartile within the peer group.
- 3.3.3 It should be noted that we have seen 18.7% average cost increases in the last two years. These cost increases have been driven by an increasing headcount at the Authority. The staffing increases were required to address organisational resilience and sustainability; the 2026/27 budget includes minor increases to the headcount.
- 3.3.4 The Authority is currently delivering pension administration at a cost below comparable schemes, despite some of the cost challenges of being a single purpose pensions authority.

#### Service

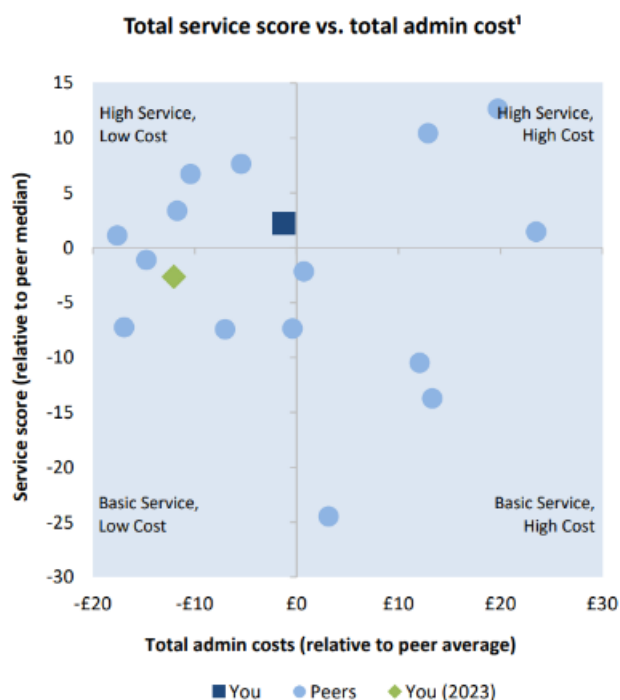
- 3.3.5 The overall service score for the year was 68/100, above the peer median of 66. This score has increased 3 points since the last benchmarking exercise. The score can be broken down across scheme members as follows.

Scheme Member Group	SYPA Score	Peer Median
Active	58	56
Deferred	64	63
Pensioners	80	76

- 3.3.6 The Pensions Administration service scores shown above are strong and trending in the right direction. However, within a continuous improvement environment, we will always look to focus on areas where we can improve further:
- Tracing Members
  - Pension Set Ups
  - Death In Service and
  - Deferment
- Focussing on improving our processes and procedures in the above areas will help increase our service score.

### Value for Money (VFM)

- 3.3.7 A holistic assessment of cost and service is essential to forming a robust VFM judgement. The chart below illustrates the Authority's position using the CEM Benchmarking results.



- 3.3.8 The Authority is positioned in the High Service, Low Cost quadrant for pensions administration. This reflects a strong value for money position, with service levels improving since 2023, while recognising that costs have increased over the same period.

### 3.4 CEM – Investment Strategy 5-year period to 31st March 2025

#### Cost

- 3.4.1 The 2024/25 CEM Investment Benchmarking report showed our investment costs were higher than the LGPS peer group benchmark set by CEM, shown in the diagram below.

#### Your cost versus the CEM LGPS (after adjusting for asset mix differences)

	£000s	bps
Your investment cost	102,303	99.7
CEM LGPS universe cost	91,045	88.8
<b>Difference</b>	<b>11,258</b>	<b>11.0</b>

- 3.4.2 The key drivers of our higher than peer group benchmark costs are:
- The Fund has a higher allocation to private and alternative assets (34% of assets) compared to LGPS peers (27%). These asset classes are the most expensive and account for approximately 90% of total investment costs.



- b) 80% of assets are managed through pooled vehicles, significantly above the LGPS average of 51%. There is not a direct correlation between pooled costs and non-pooled costs, however the nature of our actively managed and private funds makes them more expensive.
  - c) Non- pooled private market mandates added 7.3 bps (£7.5m) relative to peers, largely reflecting fee levels in private equity, private credit and infrastructure. The higher fees in private markets are driven by higher performance fees, which correlate with strong investment returns.
- 3.4.3 The strategic asset allocation clearly is the prime driver in increasing the cost base of the Fund ahead of the benchmark. The cost level and the reasons outlined above for this need to be assessed in the context of the returns generated from the asset mix and the wider strategic aims being delivered, for example place-based impact and responsible investment.

#### *Returns*

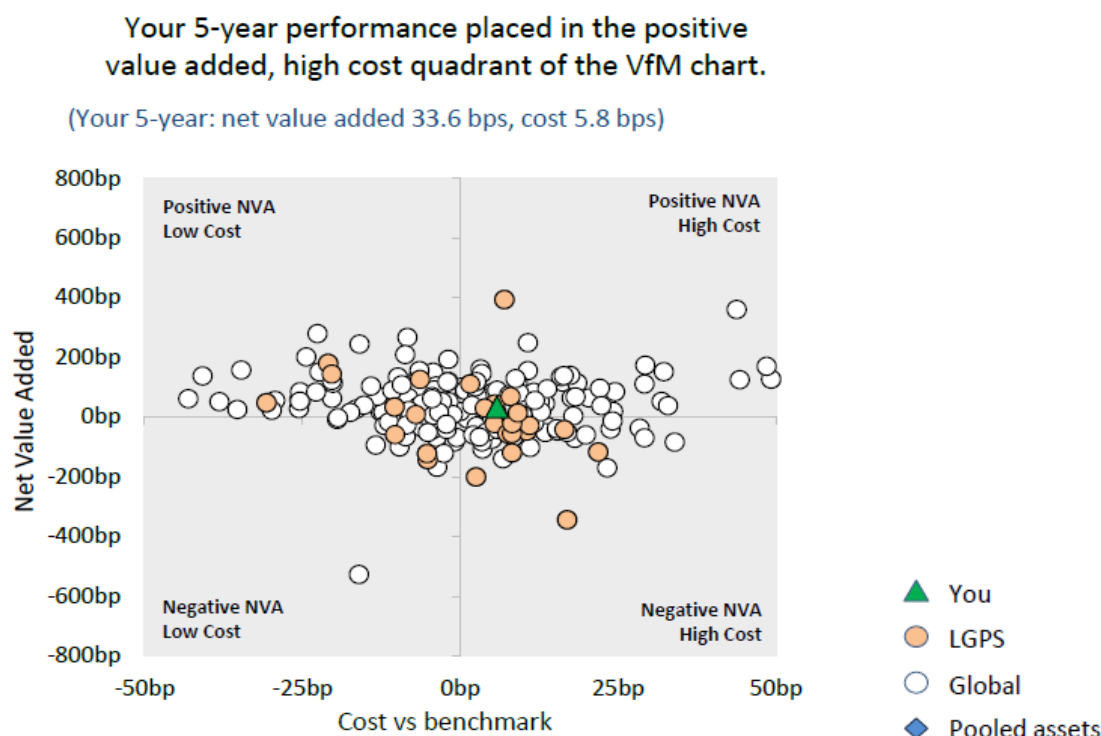
- 3.4.4 Over the five years to 31 March 2025 the Fund had a net total return of 7.3%, below the CEM LGPS median of 8.4%. However, the Fund's own benchmark over the same period was 6.5%, meaning performance was ahead of our own benchmark.
- 3.4.5 The CEM report enables performance to be assessed through the lens of Net Value Added (NVA) from active management. NVA measures the outperformance generated by active implementation decisions. Over the five-year period, the Fund achieved an NVA of 0.3% per annum, equating to approximately £156 million of additional value attributable to active investment decisions. This performance compares favourably with the CEM LGPS median of -0.2% per annum, demonstrating the positive contribution of active management to overall returns.
- 3.4.6 Whilst headline returns are below the CEM LGPS peer group benchmark, the Fund has generated positive net value added and is ahead of its own benchmark over the last 5 years.

#### *Risk*

- 3.4.7 The Fund's asset risk and risk-adjusted returns are equal to the LGPS median figures. This indicates the Fund's investment strategy is taking no more relative risk than CEM's LGPS peer group. SYPA's risk-adjusted returns have also been in-line with the LGPS peer group median over a 10-year period to 31 March 2025.
- 3.4.8 The Fund's Funding level is 4% higher than the LGPS median in the peer group, showing the Fund is performing strongly whilst maintaining a similar level of risk to other LGPS funds.

#### *Value For Money (VFM)*

- 3.4.9 A holistic assessment of cost, return and risk is essential to forming a robust VFM judgement. The following chart illustrates the Authority's position using the CEM benchmarking results.



- 3.4.10 The CEM framework assesses net value added relative to costs. The chart above shows that over the 5-year period we have positive value added with that higher cost base.
- 3.4.11 The Fund demonstrates VFM over the medium term, supported by positive net value added, strong funding and a prudent risk profile. However, higher costs increase the importance of understanding the underlying drivers (an element of which will be performance-related fees from assets meeting and exceeding hitting their targets) and ensuring that all our investments continue to deliver VFM.

### 3.5 Conclusions

- 3.5.1 This piece of work demonstrates that the Authority has strengthened its approach to assessing value for money by moving beyond high-level statutory comparisons and adopting more robust, outcome-focused benchmarking through CEM. This provides a clearer and more reliable basis for medium-term financial planning.
- 3.5.2 In Pensions Administration, the Authority is delivering services at a cost below comparable schemes while achieving above-median service outcomes. Despite recent cost increases driven by necessary staffing growth to improve resilience and sustainability, the Authority remains positioned in the High Service, Low Cost quadrant, evidencing strong value for money. Service performance is improving and is supported by a clear understanding of areas for further operational improvement.
- 3.5.3 In Investment Strategy, the Fund's higher cost base is largely explained by deliberate strategic asset allocation decisions, particularly higher exposure to private and alternative assets. While headline returns are below the CEM peer group median, the Fund has outperformed its own benchmark, generated positive net value added over the medium term, and maintained a prudent risk profile consistent with peers.
- 3.5.4 The Fund's overall value for money position is positive when assessed holistically. Over the medium term, higher investment costs have been justified by net value added, strong

funding levels and controlled risk. However, the emergence of negative value added in the most recent year reinforces the importance of continued scrutiny of costs and investment outcomes.

- 3.5.5 Taken together, the CEM benchmarking results provide assurance that the Authority is currently delivering value for money across both Pensions Administration and Investment Strategy and has a sound process in place for keeping this under regular review to ensure that we do not become complacent but continue to challenge and assess the effectiveness of our use of resources.

### 3.6 Financial Objectives

- 3.6.1 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 councils by the grant system, thus ensuring that SYPA is taking no more from the pension fund for its running costs than is necessary. The framing of the Authority's overarching objective is:

*"To deliver high-quality pension administration and investment outcomes at an appropriate and controlled cost, ensuring that all expenditure is justified by service quality, performance and long-term value for money."*

- 3.6.2 In setting financial objectives, the Authority must recognise its scale and operating model, ensuring that savings targets are achievable and do not undermine service delivery or long-term value for money.
- 3.6.3 For Pensions Administration, the financial objective is framed:

*"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."*

Cash Limits for Operating Budget	2026/27 Baseline £ / Member	2027/28 Cash Limit <sup>2</sup> £ / Member	2028/29 Cash Limit <sup>2</sup> £ / Member
Administration Service <sup>1</sup>	£37.25	£38.26	£39.29
Authority Operational Budget <sup>1</sup>	£50.56	£51.93	£53.33

#### 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 2026 meeting.

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 1.3% per year in line with recent trends.

- 3.3.1 This approach is intended to provide a clear and disciplined framework for controlling cost growth while allowing efficiency gains and productivity improvements to be reinvested in service quality and operational resilience. It is aligned with the Authority's value for money

objectives, balancing affordability with the need to maintain above-median service outcomes for scheme members.

- 3.3.2 The Authority recognises, however, that as a maturing pension fund, changes in membership profile, employer numbers and workload characteristics may affect the appropriateness of a purely inflation-based cost constraint over time. In particular, slower membership growth or shifts in member mix may limit the extent to which rising costs can be absorbed on a per-member basis.
- 3.3.3 Accordingly, this objective will be kept under review to ensure it remains realistic, deliverable and consistent with sustaining service standards and long-term value for money. Any material departure from this objective will be supported by clear evidence, including benchmarking and workload analysis.
- 3.3.4 Investment costs are inherently linked to the value and composition of the Fund's assets. The Authority's investment strategy includes a deliberate allocation to private and alternative asset classes, which are structurally more expensive than listed assets but are expected to deliver improved diversification and enhanced long-term, risk-adjusted returns. Accordingly, any financial objective relating to investment costs must recognise this strategic intent and should not impose artificial constraints that could prevent the Authority from making appropriate long-term investment decisions.
- 3.3.5 The Authority's primary investment objective remains to achieve the best possible net-of-fees, risk-adjusted returns consistent with the actuarial return requirement (currently 6% per annum). Investment costs must therefore be assessed in the context of the value delivered, rather than in isolation.
- 3.3.6 Given these considerations, framing a simple cost-limiting objective for investments is challenging. However, an appropriate and proportionate objective is as follows:

*"In any financial year, the Authority will seek to manage investment management costs at a level that is broadly consistent with, or lower than, the median of the CEM benchmarking peer group, recognising that short-term deviations may arise as a result of strategic asset allocation decisions. Any deviations over the medium term will be analysed to ensure they are proportional to our asset mix."*

- 3.3.7 This objective provides a discipline around cost control while allowing flexibility for the Authority to invest in asset classes and structures that are expected to enhance long-term value for money. It also reflects the Authority's position as a maturing fund, where changes in cashflow, membership profile and asset mix may influence both cost levels and investment implementation over time.
- 3.3.8 The Authority recognises that, as the Fund matures, the balance between cost, liquidity, risk and return may evolve. Investment cost objectives will therefore be kept under regular review to ensure they remain appropriate, deliverable and aligned with the Fund's funding position and long-term objectives.
- 3.3.9 The financial objectives set out above will be reviewed annually as part of the MTFs, taking into account their impact on the Authority's overall financial position and its ability to deliver corporate objectives.

## 4. Financial Forecasts

### 4.1 Forecast Assumptions

4.1.1 All financial forecasts are dependent on a series of assumptions. The key assumptions underpinning this MTFS are set out below:

- **Pay** – Pay awards are assumed to average 3.5% in 2026/27 and 3.0% per annum over the remainder of the MTFS period. These assumptions reflect the average of recent local government pay settlements and are considered a prudent basis for medium term planning given current Local Government challenges and inflationary conditions.
- **Prices** - CPI inflation at September 2025 was **3.8%**, which will be applied to active and deferred pension accounts and pensions in payment for 2026. The Authority's operating budget for 2026/27 includes inflationary uplifts for major contracts at the relevant **CPI or RPI rates**, in line with contractual terms. Given recent volatility in inflation, assumptions for the remainder of the MTFS period are based on estimates tailored to the specific cost category being forecast, rather than a single blanket inflation rate where appropriate.
- **Contribution Income and Benefits Payments** – A forecast of contribution income and benefit payments is provided by the Fund's actuary based on the most recent actuarial valuation results, incorporating assumptions on membership profile, pay growth, retirements and longevity.
- **Investment returns** are assumed to be in line with the long-term return assumptions used in the actuarial valuation. This ensures consistency between funding, investment and financial planning assumptions.
- **External investment management costs** have been forecast with reference to the Fund's strategic asset allocation, expected levels of investment performance, and existing contractual commitments. The forecast also reflects the ongoing transition of assets into pooled investment structures and the associated impact on costs.

4.1.2 Based on current information, these assumptions are considered reasonable and proportionate for the purposes of medium-term financial planning. The Authority recognises, however, that uncertainty remains due to the evolving external regulatory environment, the Fund's maturing membership profile and continued financial pressures across Local Government. Assumptions and forecasting methodologies will therefore be kept under regular review throughout the MTFS period to ensure they remain robust, responsive and aligned with the Authority's and Fund's operating context.

## 4.2 Operational Budget Forecast

4.2.1 The forecast operational budget for the South Yorkshire Pensions Authority over the period 2025/26 to 2028/29 is summarised in the table below.

South Yorkshire Pensions Authority Operating Budget	2025/26 Forecast Outturn	2026/27 Budget	2027/28 Estimate	2028/29 Estimate
	£	£	£	£
Pensions Administration	4,001,960	4,230,590	4,351,570	4,476,070
Investment Strategy	660,990	546,480	560,800	575,500
Resources	1,438,440	1,649,490	1,698,240	1,748,440
ICT	1,638,970	1,813,960	1,860,840	1,908,970
Central Costs	809,820	838,540	858,270	878,480
Democratic Representation	150,100	173,870	178,690	183,640
Unfunded Liabilities	312,000	289,000	299,980	311,380
<b>Subtotal Revenue Expenditure:</b>	<b>9,012,280</b>	<b>9,541,930</b>	<b>9,808,390</b>	<b>10,082,480</b>
Capital Expenditure	130,000	45,000	45,900	46,820
Financing Expenditure	36,910	34,450	31,430	28,260
MRP Charge	3,450	48,480	59,370	62,540
Contribution to/from Reserves	175,000	20,000	20,000	(40,000)
Levy on District Councils	(312,000)	(289,000)	(299,980)	(311,380)
<b>Total Charge to Pension Fund</b>	<b>9,045,640</b>	<b>9,400,860</b>	<b>9,665,110</b>	<b>9,868,720</b>

4.2.2 The budget for 2026/27 and the MTFS covering the period to 2028/29 have been developed against a backdrop of continuing cost pressures and operational demands. The principal drivers for expenditure growth are set out in more detail in the Budget Report presented alongside this Strategy.

4.2.3 The 2026/27 budget reflects a continued focus on ensuring that the Authority is appropriately resourced to meet the challenges anticipated over the next three years, as set out in the Corporate Strategy. Following significant investment in additional staffing capacity over the past three years, the overall staffing establishment for 2026/27 shows only minimal net growth.

4.2.4 Ongoing work to address existing work processes, increase automation, improve data quality and deliver on significant projects such as McCloud rectification and the Pensions Dashboard requires continued review of Pensions Administration resourcing. This is intended to ensure the service is appropriately and sustainably resourced to meet both current demands and anticipated future workloads. A resource planning budget has therefore been included within the financial plan to accommodate the outcomes of this work.

4.2.5 The estimates for 2027/28 and 2028/29 are derived by projecting the 2026/27 budget forward, removing one-off items, and applying appropriate inflationary assumptions where necessary.



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

- **Pay settlements and inflation** - there remains a risk that pay awards, or inflation, may exceed the levels assumed in the forecast. While the local government and wider public sector continue to face significant financial pressures, the 2025/26 pay settlement was agreed at a lower level than originally budgeted. Based on the limited information currently available, a 3.5% pay award has been assumed for 2026/27, with a return to 3% from 2027/28 in line with the expected inflation trajectory based on economists' and OBR forecasts. The 2026/27 assumption has been set prudently to mitigate the risk of higher than anticipated settlements in a volatile economic environment.
- **Deterioration in budgetary control** - budgetary controls and financial management processes are well established and subject to regular internal audit review. Ongoing development of the budget monitoring process will further strengthen budgetary control through more detailed reporting, enhanced training, and clearer allocation of budget responsibility to service managers. There is no indication of any likely deterioration in this area.
- **Loss of external income** - this risk is mitigated through prudent budgeting assumptions, including the exclusion of uncertain or sporadic income streams such as additional software sales. Where possible, longer-term agreements are secured with customers, with staggered end dates to avoid a concentration of contract expiring in any single year.

4.2.7 Overall, the operational budget is considered to be relatively low risk and straightforward when compared with the Fund Forecast. It is significantly smaller in scale and subject to far less volatility. While it receives proper scrutiny, as a cost ultimately borne by Fund participants, any variances are unlikely to have a material impact on the overall financial position or long-term sustainability of the Fund.

### 4.3 Pension Fund Forecast

4.3.1 The table below summarises the forecast position of the South Yorkshire Pension Fund for the current year and the three years thereafter.

South Yorkshire Pension Fund	Actual	Forecast	Forecast	Forecast	Forecast
Financial Forecast	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
<i>Dealings with members, employers and others directly involved in the scheme:</i>					
Contributions receivable & transfers in from other pension funds	(307)	(332)	(259)	(266)	(274)
Benefits payable and payments to or on account of leavers	458	473	408	410	424
<b>Net (additions) / withdrawals from dealings with members</b>	<b>151</b>	<b>141</b>	<b>149</b>	<b>144</b>	<b>150</b>
Management expenses	103	122	125	128	131
Net returns on investments	(382)	(1,270)	(1,002)	(1,043)	(1,098)
<b>Net (increase)/decrease in the Fund during the year</b>	<b>(128)</b>	<b>(1,007)</b>	<b>(728)</b>	<b>(771)</b>	<b>(817)</b>
Net Assets of the Fund at 1 April	(10,984)	(11,112)	(12,119)	(12,847)	(13,618)
<b>Net Assets of the Fund at 31-March</b>	<b>(11,112)</b>	<b>(12,119)</b>	<b>(12,847)</b>	<b>(13,618)</b>	<b>(14,435)</b>
Management Expenses as Percentage of Average Net Assets	0.93%	1.05%	1.00%	0.97%	0.93%

4.3.2 The Pension Fund forecast is inherently more susceptible to forecasting uncertainty than the operational budget. While historic trends and actuarial assumptions provide a sound basis for estimation, the Fund has limited control over several key drivers, including the number of retirements in any given year, individual decisions regarding commutation of pension to lump sum, mortality experience and the volume of transfers into and out of the Fund. Although the forecasts are based on the best information available and adjusted for known one-off events and inflation where appropriate, there remains a significant degree of year-to-year variability that is difficult to predict with precision.

4.3.3 The forecast Fund value at the end of the current year reflects the challenging and volatile external investment environment experienced through 2024/25 and into 2025/26. While market conditions have shown some signs of stabilisation, the outlook continues to be shaped by wider economic uncertainty. The forecast nevertheless assumes a gradual improvement in conditions, which supports a projected increase in Fund valuation over the medium term.

4.3.4 A key feature of the forecast is the expectation of a continuing net cash outflow from the Fund arising from dealings with members. As benefit payments increasingly exceed contributions received, there is a growing requirement to meet liabilities through the harvesting of investment income. This is a structural consequence of the Fund's maturity and is expected to remain a long-term challenge rather than a temporary position.

4.3.5 The principal risks and uncertainties affecting the Fund forecast are as follows:

- **Financial market volatility** - fluctuations in financial markets will directly affect both asset values and levels of investment income. Large market movements can therefore result in material variances from forecast positions. While the Fund's diversified strategic asset allocation is designed to mitigate volatility, the risk of market dislocation remains and is currently heightened by ongoing international trade tensions and broader geopolitical uncertainty.
- **Employer workforce reductions** – a further significant round of service reductions among major employers could lead to workforce contraction, reducing the number of active contributors, while increasing the imbalance between contributions received and benefits paid. Beyond adjustments to the Strategic Asset Allocation to emphasise income generation and returns above actuarial assumptions, there are limited mitigating actions available to the Fund in these circumstances.
- **Investment pooling outcomes** – Border to Coast has to date delivered broadly in line with agreed plans. There is a greater level of uncertainty at this review of the MTFS in relation to outcomes for costs of pooling as a result of the significant changes taking place to comply with the Government's fit for the future reforms. The pool company are developing a range of capabilities in order to deliver the increased requirements placed on them at the same time as the partnership is increasing in size and scale with the addition of 7 new partner funds to the existing 11. The changes also mean that all assets of all the funds are required to be fully managed by the pool. It should be expected that over the medium term, these changes will increase the likelihood of costs being contained due to economies of scale etc.

Any underperformance or failure to deliver anticipated benefits will continue to be addressed through collective engagement and challenge by the partner funds. A key priority in the coming year for the partnership is the development of a collective model for oversight of the pool's performance.

4.3.6 Overall, the forward forecast continues to reflect a challenging and uncertain economic environment. However, actuarial assumptions underpinning the forecast anticipate continued positive investment returns, as inflationary pressures ease and financial markets stabilise over the medium term. This outlook reinforces the importance of the Fund not only maintaining a focus on risk adjusted net-of-fees returns and resilient income streams within the revised strategic asset allocation, but also of ensuring robust oversight of Border to Coast's implementation of the strategy and that outcomes align with the Fund's long-term objectives and return expectations.

## 5. Policy on Reserves

### 5.1 Reserves

5.1.1 Reserves are funds that are set aside for two principal purposes:

- To provide capacity to respond to unforeseen events requiring additional resources; and
- To set aside funding in advance for specific, planned projects or initiatives.

5.1.2 As all of the Authority's costs (other than the unfunded former SYCC liabilities, met by a levy on the district councils) are ultimately met by the Pension Fund, the case for holding reserves as a general contingency differs from that of a local authority. In the event of an unforeseen incident, such as damage to buildings or systems, the associated costs would fall to the Pension Fund. Given that the Fund is approximately 1,260 times larger than the Authority's operational budget, such costs would not be material in the context of the Fund overall.

5.1.3 There is, however, a clear rationale for holding reserves to support planned expenditure. The ability to carry forward underspends to fund future projects provides an incentive for managers to operate within approved budgets and supports more effective medium term financial planning.

5.1.4 A balance must nevertheless be maintained. Allowing reserves to accumulate beyond a reasonable level would, in effect, withhold cash from the Pension Fund that could otherwise be invested. For this reason, a limit is placed on the level of operational reserves to ensure that reserves remain proportionate to the Authority's scale and purpose. The Authority's policy is therefore framed:

*"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 2025/26, after planned transfers to reserves, indicates a small underspend against budget. Strong budgetary control during the year has enabled the Authority to transfer resources into reserves, strengthening its capacity to meet future requirements in a controlled and planned manner.

5.1.6 The forecast level of reserves over the medium term is set out in the table below.

South Yorkshire Pensions Authority Earmarked Reserves	Forecast Balance at 31 March 2026 £	Forecast Balance at 31 March 2027 £	Forecast Balance at 31 March 2028 £	Forecast Balance at 31 March 2029 £
<i>Operational Revenue Reserves:</i>				
Corporate Strategy Reserve	153,855	173,855	193,855	153,855
ICT Reserve	269,360	269,360	269,360	269,360
Capital Projects Reserve	116,380	116,380	116,380	116,380
<b>Total Reserves</b>	<b>539,595</b>	<b>559,595</b>	<b>579,595</b>	<b>539,595</b>
<i>Reserves as % of Budget</i>	<i>6.0%</i>	<i>6.0%</i>	<i>6.0%</i>	<i>5.5%</i>

5.1.7 The table above shows that the current financial plans provide for contributions to operational revenue reserves in 2026/27 and 2027/28, followed by a planned drawdown of reserves in 2028/29. Earmarked reserves will continue to be kept under regular review, and any proposed transfers to or from individual reserves will be reported to the Authority for approval, based on the recommendation of the Chief Finance Officer. This will be undertaken through the Authority's established quarterly reporting of management accounts and financial forecasts.