

# **SOUTH YORKSHIRE PENSIONS AUTHORITY**

**23 JANUARY 2020**

PRESENT: Councillor M Stowe (Chair)  
Councillor J Mounsey (Vice-Chair)  
Councillors: A Atkin, S Cox, A Law, A Murphy, C Rosling-Josephs,  
A Sangar, A Teal, P Wray, N Wright and T Yasseen

Trade Unions: N Doolan-Hamer (Unison), D Patterson (UNITE) and  
G Warwick (GMB)

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), F Bourne  
(Corporate Administrator), N Copley (Treasurer), A Frosdick  
(Monitoring Officer), G Graham (Fund Director), M McCarthy (Deputy  
Clerk), G Richards (Senior Democratic Services Officer), S Smith  
(Head of Investments) and G Taberner (Head of Finance and  
Corporate Services)

A Stone (Border to Coast Pensions Partnership Ltd)

I Colvin (Hymans Robertson)

## 1 APOLOGIES

There were no apologies.

## 2 ANNOUNCEMENTS

The Chair introduced Ian Colvin from Hymans Robertson who were conducting a governance review across the LGPS at the request of the Scheme Advisory Board.

They were looking at different governance structures, best practice and analysing different models of how the LGPS function was delivered with a view to putting forward proposals to raise standards across the Scheme; these proposals had yet to be formalised.

He had been asked to help the Authority to be ready for the good governance proposals and to ensure that the Authority could demonstrate that they met all the requirements.

The Chair informed Members that to support Ian in his work, an effectiveness survey would be circulated to all Members for completion. One-to-one support to complete the survey would be available if required.

The Fund Director reported that this was the last meeting to be attended by Mrs Fiona Bourne who was due to retire shortly. He wished to place on record the gratitude of officers for all her work over many years in ensuring that the Authority's governance and decision making processes worked effectively.

## 3 URGENT ITEMS

None.

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

RESOLVED – That item 17, Pensions Administration Software, be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

Members from all districts reported increased pressure regarding climate change, especially around reducing CO<sub>2</sub> emissions.

Some districts had declared a climate change emergency and Members felt that the Authority needed to show that it was doing all it could in this area.

The Chair remarked that the Authority took climate change and responsible investment very seriously and continued to respond to all correspondents to reassure them.

The Fund Director would be happy to assist with any queries that Members received.

7 MINUTES OF THE AUTHORITY MEETING HELD ON 12 SEPTEMBER 2019

RESOLVED – That the minutes of the meeting of the Authority held on 12 September 2019 be agreed as a true record.

8 SOUTH YORKSHIRE LOCAL PENSION BOARD CONSTITUTION

A report was considered to seek approval for an updated Constitution for the Local Pension Board.

Members were informed that the revised Constitution, which was attached as an Appendix to the report, now incorporated:

- The current agreed membership of the Board;
- The arrangements for the register of interests reflected in the Conflicts of Interest Policy, including provision for publication;
- The Board's up-to-date Terms of Reference.

RESOLVED – That the Authority approve the revised Constitution of the South Yorkshire Local Pension Board as set out in Appendix A.

9 PROGRAMME OF FUTURE MEETINGS

A report was submitted to consider the proposed schedule of Authority meetings during 2020/21.

Members noted that the meeting dates had, where possible, been checked against the meeting calendars of the four district councils.

Cllr Yasseen queried whether it would be possible to consider having a 50/50 split of daytime and evening meetings.

The Chair suggested that Cllr Yasseen submitted a formal proposal, officers could then consider the options and bring a paper back to the Authority for discussion.

Cllr Murphy suggested carrying out an equality impact assessment and commented that this had obviously not been done at a training venue she had recently attended.

RESOLVED – That the Authority approve the schedule of meetings for 2020/21.

## 10 CORPORATE PERFORMANCE

The Authority considered the Quarter 2 Corporate Performance report, noting that this was later than normal due to the cancellation of the December Authority meeting because of the General Election.

Key messages for the Quarter were that the Corporate Plan remained on target, sickness levels were improving, the funding level was above 100% (based on 2019 assumptions) and investment returns were above the benchmark.

On the downside, administration performance remained below benchmark, this was linked to a high number of staff vacancies for which recruitment was now underway and there was a large variance between the budget and the forecast outturn.

In answer to a question from a Member, the Head of Pensions Administration confirmed that interviews were being held for 12 vacant posts for both Customer Service Officers and Pensions Officers and it was hoped that they would start towards the end of February. After an initial training period, it was expected that performance levels would begin to rise.

The reasons for the forecast of a large underspend against the budget were detailed within the report including staffing costs which were expected to be a £382k underspend and expenditure on fees relating to internal and external management of investments reflecting the changes as the transition to pooling continued to progress.

Members noted that the Senior Management Team had reviewed the overall position on the budget and reserves in order to inform the financial planning for 2020-21 and the medium term financial strategy. The plans in the Corporate Strategy and supporting documents would require capital resources for the following areas:

- New core business systems.
- Re-procurement of the Pensions Administration System.
- Initial scoping of the options for long-term office accommodation which would require external specialist support.

The capital costs of these projects were expected to be in the region of several hundred thousand pounds. Therefore Members were asked to approve the suggestion to use the current underspend (forecast at £510k) to finance the projects

and thereby reduce the amount that would have to be financed from internal borrowing.

It was proposed to set up a new 'Capital Projects' reserve and to transfer the 2019/20 underspend into this reserve. Additionally, it was proposed to transfer £150,000 from the existing Corporate Strategy reserve into the new Capital Reserve to be earmarked for those projects.

With regard to the Risk Register, Members were informed that no new risks had been added during the quarter but one risk rating had been changed – the risk of failure to ensure that the Authority had appropriate access to its cash resources. The risk score had reduced as a result of the existing control measures in place including new software that assisted with cashflow modelling.

With regard to the climate change risk, the Fund Director informed the Authority that this would be reassessed following the review of the Investment Strategy at the next meeting of the Authority.

RESOLVED – That the Authority:

- (i) Note the Corporate Performance Report for Quarter 2.
- (ii) Approve the setting up of a Capital Projects reserve and the transferral of the 2019/20 underspend into this reserve to fund the capital projects as detailed within the report.
- (iii) Approve the transfer of £150,000 from the Corporate Strategy reserve into the Capital Projects reserve.

## 11 CORPORATE PLANNING FRAMEWORK

A report was submitted to introduce the suite of reports covering the annual update of the Authority's Corporate Planning Framework.

Members noted that the update was being produced in the context of:

- The completion of the 2019 Valuation.
- Significant challenges to the administration on an already complex scheme from issues such as GMP reconciliation and the impact of the McCloud case.
- A continuing increase in the number of employers within the Fund.
- The ongoing process of pooling the Authority's investments within structures provided by Border to Coast.
- An increasing focus on the good governance of LGPS funds from both the Scheme Advisory Board and the Pensions Regulator.

RESOLVED - That the report be noted.

## 11A CORPORATE STRATEGY UPDATE

A report was considered which sought approval of the updated Corporate Strategy covering the next three years.

In developing the Strategy, a wider group of staff had been engaged; this had helped to target areas which were making colleague's jobs more difficult.

The Action Plan had been framed in a more practical way to allow all staff to engage with; the Action Plan and the Budget were linked closely together.

The Strategy set out expected values and behaviours which reflected how the Authority wished others to see them and which would also influence the culture of the organisation.

The Action Plan included within the Strategy was divided into four programmes or work, these were:

- Services to Scheme Members and Employers.
- Customer Service and Engagement.
- Delivering the Investment Strategy.
- Supporting the Corporate Organisation.

Some of the items in the Action Plan were small practical changes which would have a cumulative impact on efficiency, for example implementing paperless processing of investment transactions and of the custodian's bank statements.

The Strategy also contained details of the Operating Budget and provided a summary of the budget for 2020/21 and forecasts for future years.

RESOLVED – That the Authority:

- (i) Approve the update Corporate Strategy at Appendix A to the report.
- (ii) Authorise the Fund Director to revise dates for projects within the Strategy, in consultation with the Chair, in the light of changed information prior to 31<sup>st</sup> March 2019.

## 11B MEDIUM TERM FINANCIAL STRATEGY

A report was considered which presented the Authority's Medium Term Financial Strategy 2020/21 to 2022/23.

The Medium Term Financial Strategy set out estimates of income and expenditure and balances on the Pension Fund over the next 3-year period, as well as forecasts of operational costs of the Authority over the same timescale.

The Strategy included a framework of financial rules within which the Authority would determine its resource requirements.

In terms of the Fund forecast, Members were informed that the nature of expenditure on the Fund in terms of the number of members retiring and transfers etc., meant there was a significant amount of variability from year to year which made it difficult to forecast, but the forecast had been produced using the best information available at the time.

The forecast had showed that there would be a need to increase the use of investment income in order to support the net cash flows.

Members noted that the graphs included within the Strategy appeared to show that SYPA's costs had increased significantly as a proportion of Fund value in 2018/19. However, it was noted that this was due to an increase in reported investment costs rather than additional costs.

RESOLVED – That the Authority approve the Medium Term Financial Strategy for 2020/21 to 2022/23.

11C PENSIONS AUTHORITY BUDGET 2020/21

The Authority considered a report which presented the Authority Budget proposals for 2020/21.

Members were informed that the Budget had been framed to provide the resources needed to deliver the aims and objectives set out in the Corporate Strategy.

A comprehensive line-by-line review of the expenditure had been undertaken. The budget proposals took account of some of the major changes the Authority had gone through over the last two years and also the planned direction for the organisation going forward.

The review enabled existing resources to be redirected in order to support the areas of additional investment required in areas such as IT and governance.

In total, the overall costs of the budget was proposed to stay the same as the current financial year at £5.4m.

The report also set out the movement and estimated balances on the Authority's earmarked reserves arising from the budget proposals.

RESOLVED – That the 2020/21 budget for the Authority is approved at a total of £5,554,600.

11D LEVY 2020/21

A report was considered which detailed the proposals for the 2020/21 Levy.

The 2020/21 Levy had been calculated as £415,000, a reduction of £21,000 compared to the 2019/20 Levy.

Members were informed that the estimated apportionment of the 2020/21 Levy, was based on 2019/20 Council Tax Base shares; these were detailed within the report. It was noted that the actual apportionment would be re-calculated to reflect the approved 2020/21 Council Tax Base figures for each district as soon as the information was available.

RESOLVED – That the Authority approve a total Levy of £415,000 for 2020/21 in accordance with The Levying Bodies (General) Regulations 1992, to be allocated to the District Councils in proportion to their approved Council Tax Base amounts for 2020/21.

12 INVESTMENT ADVISOR MARKET COMMENTARY

Aoifinn Devitt, one of the Authority's independent advisors provided a Market Commentary which provided additional context for the following performance reports reflecting on market conditions, as well as looking back at the previous decade and examining the outlook for 2020.

The Chair thanked Ms Devitt for an informative report.

13 Q2 INVESTMENT PERFORMANCE

The Head of Investment Strategy presented the Quarterly Report to 30 September 2019.

For the quarter to the end of September, the Fund returned 2.8% against the expected benchmark which gave a year to date return of 6.2% against an expected return of 6.3%. The Fund valuation rose from £8,694.4m to £8,913.8m.

Looking at the Fund ex-equity protection showed an outperformance of the benchmark giving a return of 3%.

Considering the equity protection strategy, the nominal value of the portfolio which was protected rose in value over the quarter by 3.1% and the value of the options detracted by £18.4m from the value of the Fund. This effectively reduced the return to the Fund by 0.2%.

The indicative funding level at 30<sup>th</sup> September 2019 was 103.1% compared to 101.5% at 30<sup>th</sup> June 2019.

A Stone updated the Authority on Border to Coast's latest progress and performance.

Members noted that Border to Coast had:

- Launched its fifth equity fund
- Launched three alternative assets funds
- First bond fund designed and managers selected (Q1 2020 launch)
- £14bn equities under management at end September 2019
- Initial £1.75bn committed to alternatives

Members also noted the capability launch timetable up to 2022.

With regard to performance up to the end of December 2019:

- UK Listed Equity had produced marginally positive performance over the period.
- Overseas Developed Equity was 0.4% ahead of the benchmark
- Emerging market equity was 1.1% ahead of the benchmark and produced its strongest quarter since inception.

A Stone updated Members on the development of a Multi-Asset Credit offering. There had been interest from 10 Partner Funds involving around £2.5bn and Border to Coast were hoping to hit a target of benchmark + 3-4% per annum with the product. There was still a lot of work to be done; it was hoped to launch the fund in approximately 12 months.

The Authority was updated on Index Linked Bonds and the alternative fund range which included Private Equity, Infrastructure and Private Credit.

Cllr Sangar thanked A Stone for his presentation which would feed into decisions the Authority would take in March in terms of the Investment Strategy.

What was important was the information on the capability launch timetable and what the Authority wanted to invest in.

Border to Coast had a busy 2019 and 2020 and 2021 would also be very busy by which stage they would have a full suite of sub-funds that they thought schemes may want to invest in.

The question for the Authority in March would be what wasn't there. SYPA would not be able to invest in agriculture, property was obviously difficult as it would not be available until 2022. It was this information that Members needed, it was very difficult for Members to keep up to speed with everything.

Border to Coast was wholly owned by 12 Funds whose job it was make investments to pay pensions. It was vital to ensure that Border to Coast was supplying the products that the Partner Funds required. Discussion today and in March should be around where this was taking the Authority.

The Fund Director replied that Cllr Sangar had identified a session that would be included in the new Member induction in June. One of the Authority's advisors had experience of three different pools and therefore three different ways of doing things and would be able to share this knowledge.

To answer the fundamental question regarding what was missing, the only obvious asset class that was not there was Commodities and this was not the time to be investing in that asset class. With regard to Agriculture, the Authority was still to decide what was to be done in that area.

It was the intention to hold an informal session on the Investment Strategy before the meeting in March to assist with Members' understanding.

RESOLVED – That the Performance reports be noted.

#### 14 Q2 RESPONSIBLE INVESTMENT UPDATE

A report was considered which updated Members on Responsible Investment activity being undertaken by the Authority and by Border to Coast and to note the revised partnership Responsible Investment Policy and Voting Guidelines which were approved under the Urgent Business Procedure in December.



To summarise the stance of SYPA with regard to Responsible Investment, the Authority wanted to be a good owner of good companies that encouraged those companies to improve.

The report covered how, in the quarter ended September 2019, shares owned by the Authority in Border to Coast portfolios had been voted on, highlighted some of the issues addressed and detailed the engagement activity undertaken.

There was also a focus on work Border to Coast wanted to do with Funds with regard to Responsible Investment including integrating ESG and active ownership.

The Fund Director informed the Authority that Border to Coast had formally signed up to the UN Principles of Responsible Investment within the last few days which was a very positive step.

RESOLVED – That the Authority:

- (i) Note the activity undertaken in relation to Responsible Investment issues since the last meeting of the Authority.
- (ii) Note the Border to Coast Responsible Investment Policy and Voting Guidelines which were approved under the Urgent Business Procedure.
- (iii) Endorse the approach proposed to addressing the requirements of the new UK Stewardship Code which placed additional reporting obligations on the Authority as an asset owner.
- (iv) Note the response to the Scheme Advisory Board's Draft Guidance on Responsible Investment.

## 15 APPROVAL OF BORDER TO COAST INVESTMENT MANDATE

A report was submitted which sought to secure approval for the Border to Coast Index-Linked Gilt product.

The report set out the details of the mandate for Index-Linked Gilts for endorsement prior to officers undertaking the work necessary to transition assets or make new investments in the new structure.

RESOLVED – That the Authority:

- (i) Approve the investment mandate for the Index-Link Gilt Border to Coast Product.
- (ii) Note that the level of commitment to this product would be determined at the time of launch by the Head of Investment Strategy having regard to the Strategic Asset Allocation under existing delegation arrangements.

## 16 FUNDING STRATEGY STATEMENT

A report was submitted which requested consideration and approval of the Authority's Funding Strategy Statement following consultation with stakeholders and the completion of the valuation process.

Members were reminded that the purpose of the Funding Strategy Statement was to lay out both the assumptions used to underpin the valuation process but also a range of policies about how contribution rates were set to achieve the aim of longer term stability in contributions. As a statutory document it was noted that it was a requirement that the Authority consulted with stakeholders on the policies which it proposed to implement. The report detailed those involved in the consultation process.

The key changes reflected in the draft Funding Strategy Statement were:

- Alternative Funding Targets.
- McCloud.
- Short Term Pay Growth
- Ill Health Captive
- Prepayments
- Contribution Stability
- Deficit Recovery
- Phasing of Contribution Increases
- Academies; and
- Outsourcing and Exits.

Members noted that the framework set out in the draft FSS was intended to protect the Fund and ensure the greatest possible likelihood of achieving and maintaining full funding at employer level while at the same time giving flexibility to recognise both the general financial pressures facing employers and deal with cases of particular difficulty.

RESOLVED: That the Authority:

- (i) Note the process of engagement undertaken around the valuation results and the Funding Strategy Statement.
- (ii) Note the comments made by stakeholders in relation to the draft Funding Strategy Statement.
- (iii) Approve the Funding Strategy Statement, attached at Appendix A to the report.
- (iv) To delegate to the Fund Director in consultation with the Actuary, authority to finalise the Rates and Adjustments Certificate in line with the statutory timetable.

#### Exclusion of the Public and Press

RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public and press be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

17 PENSIONS ADMINISTRATION SOFTWARE

A confidential report was submitted concerning a fixed term extension of the existing licensing arrangements for the Pensions Administration Software.

RESOLVED – That the Authority approve the waiving of the relevant Contract Standing Order in order to extend the existing Pensions Administration Software with Civica for a fixed two-year period through a process of direct award under the crown Commercial Services and Data Applications Solutions Framework.

CHAIR