

Agenda Item 9

**Pension Board
5 March 2021**

Gloucestershire Pension Fund Business Plan 2021/22

Report of the Head of Pensions

Summary

The Fund's Business Plan 2021/22, as set out in Appendix 1 to this report, covers the Funds objectives, key areas of activity and budget for 2021/22.

Background

Good governance of the Pension Fund is critical for the long-term sustainability of the Fund for the members and the participating Employers, therefore, the purpose of the Business Plan is to:

- explain the background and objectives for the management of the Gloucestershire Pension Fund
- document the priorities and improvements to be implemented by the Pension Fund over the next year to help achieve those objectives
- enable progress and performance to be monitored in relation to those priorities
- provide stakeholders with a clear vision

In addition, this Business Plan includes a budget for expected payments from the Gloucestershire Pension Fund over the period, including the resources required to manage the Fund.

The Business Plan is formally reviewed and agreed every year. However, throughout the year it is monitored by officers, and as a result the Pensions Committee may be asked to agree changes to it.

Agenda Item 9

Review of 2020/21 Business Plan and Budget

The following is a review of the agreed work plan of the previous business plan:

Meeting	Activity	Completed	Comments
Friday 15 May 2020	Meeting Cancelled due to Covid-19	n/a	

Meeting	Activity	Completed	Comments
Friday 25 September 2020	Market Valuation & Quarterly Performance Report Q1 and Q2	✓	
	Brunel Pension Partnership (BPP) Performance Report Q2	✓	
	Update report from Independent Investment Advisor	✓	
	Exit Credit Policy	✓	
	Risk Register	✓	
	2020/21 Business Plan	✓	
	Pensions Administration Update	✓	
	Responsible Investment and Climate Change Presentation – Brunel Pension Partnership (BPP)	✓	
	Actuarial Update Presentation – Hymans Robertson	✓	
	Private Markets Update – Brunel Pension Partnership (BPP)	✓	

Agenda Item 9

Meeting	Activity	Completed	Comments
Friday 13 November 2020	Meeting rescheduled to Friday 4 December 2020.	n/a	

Meeting	Activity	Completed	Comments
Friday 4 December 2020	Market Valuation & Quarterly Performance Report Q3	✓	
	Brunel Pension Partnership (BPP) Performance Report Q3	✓	
	Update report from Independent Investment Advisor	✓	
	Risk Register	✓	
	Governance Policy and Compliance Statement	✗	Will form part of the Governance Review and the 2021/22 work plan
	Pensions Administration Update	✗	A full update was not provided, but administration resources was discussed and a resource plan was asked to be brought back to Committee
	Brunel Pension Partnership update presentation - (BPP)	✗	Update presentation not provided by Brunel, an update was provided by Officers

Agenda Item 9

Meeting	Activity	Completed	Comments
Friday 5 March 2021 (previously scheduled for February 2021)	Market Valuation & Quarterly Performance Report Q4	✓	
	Brunel Pension Partnership (BPP) Performance Report Q4	✗	Report has been replaced by a Officer report to be read in conjunction with the Independent Advisers report on all investment performance related matters
	Update report from Independent Investment Advisor	✓	
	Risk Register	✓	
	Governance Policy and Compliance Statement	✗	Will form part of the Governance Review and the 2021/22 work plan
	Pensions Administration Update	✓	
	Brunel Pension Partnership update presentation - (BPP)	✗	Update presentation not provided by Brunel, an update was provided by Officers

In addition to the previously agreed work plan the Committee also during the year added the following activities:

Meeting	Activity	Completed	Comments
Friday 29 January 2021 (previously scheduled for February 2021)	Review strategic objectives for the Independent Adviser	✓	
	Strategic Equity Allocation Review	✓	
	Pension Fund Operational Resource Review	✓	

Agenda Item 9

Activity against the 2020/21 business plan has been undertaken largely in line with the agreed budget with some exceptions as seen in the table below:

	Budget	YTD Dec 20	%	Forecast Outturn	Variance
	2020/21	2020/21		2020/21	2020/21
	£'000	£'000		£'000	£'000
Administrative Expenses					
Staff costs	960	597	62	798	-162
Premises	70		0	52	-18
IT	400	291	73	387	-13
Supplies and services	260	99	38	250	-10
Other central costs	60	4	7	61	1
Cost of democracy	0	0	0	0	0
Other	0	4	+ 100	11	11
Total Administrative Expenses	1,750	995	57	1,559	-191
Investment Management Expenses					
Management fees	5,306	5,203	98	7,018	1,712
Performance fees	0	399	+ 100	532	532
Custody fees	140	60	43	75	-65
Brunel contract costs	1,040	1,040	100	1,040	0
Tax & legal cost	0	0	0	0	0
Transaction costs	580	120	21	580	0
Total Investment Management Expenses	7,066	6,822	97	9,245	2,179
Oversight & Governance Expenses					
Staff costs	230	79	34	134	-96
Audit fees	30	13	43	30	0
Actuarial fees	400	99	25	212	-188
Pension Committee/Board	10	0	0	0	-10
Performance monitoring service	117	81	69	97	-20
Investment consultancy	30	15	50	31	1
Other professional fees	200	9	5	60	-140
Total Oversight & Governance Expenses	1,017	296	29	564	-453
Income					
Recoveries for services provided	-125	-67	54	-125	0
Total Pension Fund Budget	9,708	8,046	83	11,243	1,535

The majority of the Funds Administrative and Oversight & Governance underspend relate to the level of vacancies experienced during the year. The underspend in actuarial fees is as a result of the budget being based on the additional work of an actuarial valuation from the previous year, which was not required during this year. The expenditure on professional fees fluctuates year on year depending on the number of complex matters the Fund has had to deal with that may require legal opinion or support from additional professional advisers.

Agenda Item 9

There is an expected overspend of c£2.2m against fund management fees reflecting the increase in asset values under management and the nature of the fee structures. Fund management fees for some mandates have increased as a result of moving from passive to active managers and a change in the strategic asset allocation which resulted in increased investments to alternatives, particularly private equity and infrastructure which are subject to higher fee rates.

Priorities for 2021/22

For 2021/22 it is proposed to focus on 4 key areas and continue to build on the work from the current year and any nationally identified issues. The details are contained in the business plan, attached as Appendix 1, but to summarise:

- Complete the transition of all assets to the Brunel portfolios and improve on the Committee performance reporting;
- Continue the Funds implementation of the agreed Strategic Asset Allocation and review the Funds exposure to inflation risk;
- Undertake a governance review and ensure consistency with the guidance from the Scheme Advisory Board and compliance with regulations;
- Progress with the recruitment plan of the agreed additional staffing

In addition, the following are just some of the other areas which will need to be managed or responded to, some of which may necessitate a review of the aims, objectives and governance of the Fund:

- The McCloud case and the additional administration workload this will require
- Implementing any required changes as a result of the national LGPS cost control mechanism
- Impact of Covid on funding, investment and/or administration
- 95k cap regulations
- Continued development of Brunel

Agenda Item 9

Budget 2021/22

The business plan 2021/22 sets out the Funds budget for 2021/22 and compares it with the budget for 2020/21. Overall there is an increase in the budget from £9.7m to £12.5m. The main elements of this variation are explained in more detail below. The budget has produced based upon the CIPFA accounting guidelines, so it replicates the information contained in the Funds Annual Report and Accounts. The budget is proposed to be monitored by Committee periodically during the year.

The increase in the administrative staff costs, reflect the additional resources agreed by Committee in January 2021. The IT expenditure is also increased as a result of the need for additional IT equipment and software licenses etc.

The investment consultancy cost for the year is increased to allow for the review of the inflation risk and further risk management analysis that may be required. The actuarial costs reflect the preparation that will be undertaken for the next valuation in 2022.

An increased budget for Committee and Board training reflects the proposed training strategy and to ensure compliance with the CIPFA knowledge and skills framework.

The major variation in the budget is on Management fees which have been increased from £5.3m to £8.0m. Around half of this increase reflects the increase in the overall assets of the Fund and the fact that management fees are charged as a fixed percentage of assets under management. The remaining increase in fees reflects the implementation of the strategic asset allocation decisions and the transition of assets to the infrastructure and private equity portfolios with Brunel and these portfolios attract higher fees than the previous allocations to equities. Also, the transition from passive to active management also results in a higher fee basis. It should be noted that increases in fees should be more than offset by improved investment returns.

Recommendation

That the Board note the Business Plan for 2021/22 at Appendix 1 and note the current outturn position of the 2020/21 business plan contained in this report.

That a work plan be established for the Board to support the activities contained in the Fund Business Plan for 2021/22

Contact Officer

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