

Agenda Item 9

**Pension Committee
3 March 2022**

Gloucestershire Pension Fund Business Plan 2022/23

Report of the Head of Pensions

Summary

The Fund's Business Plan 2022/23, as set out in Appendix 1 to this report, covers the Funds objectives, key areas of activity and budget for 2022/23.

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.

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Review of 2021/22 Business Plan and Budget

The following is a review of the agreed work plan of the business plan for 2021/22:

Governance

Task	2021/22			
	Q1	Q2	Q3	Q4
Review of Risk Register	✓ - completed	✓ - completed	✓ - completed	✓ - completed
Approval of External Audit Plan	✓ - completed			
Implement outcomes of the Funds Governance Review		✓ - launched and ongoing	✓ - launched and ongoing	✓ - launched and ongoing
Review and approve Business Plan				✓ - on agenda
Annual review against The Pensions Regulators Code of Practise				✓ - on the 2022/23 business plan
Approval of audited Fund accounts		✓ - completed		
Approval of Annual Report		✓ - completed		
Review Policy Statements		✓	✓ - launched and ongoing	✓ - launched and ongoing
Training Needs Analysis	✓ - completed			

Funding

Task	2021/22			
	Q1	Q2	Q3	Q4
Review of ongoing funding position	✓ - completed	✓ - completed	✓ - completed	✓ - completed
Cash flow modelling			✓ - launched and ongoing	

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Investment Management

Task	2021/22			
	Q1	Q2	Q3	Q4
Monitor Fund performance	✓ - completed	✓ - completed	✓ - completed	✓ - completed
Responsible Investment Reporting	✓	✓	✓	✓ – working in conjunction with the Brunel business plan for 2022/23
Asset transitions to Brunel Portfolios	✓ - completed			
Review the inflation exposure on the Fund and implemented agreed recommendations	✓ - delayed	✓ - commenced	✓ - ongoing, now part of the strategic review	
Review the Funds Investment Strategy Statement				✓ - moved to Q1 2022/23 business plan
Procure consultancy support in preparation for the next full strategic review in 2022/23				✓ - completed
Review the Funds Responsible Investment Policy			✓	✓ - moved to 2022/23 to coincide with Brunel Climate Stocktake outcomes
Review the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) and requirements for UK Stewardship code signatory status	✓	✓	✓	✓ - awaiting further consultation and regulations

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Administration

Task	2021/22			
	Q1	Q2	Q3	Q4
Issue Annual Benefit Statements to active and deferred members		✓ - completed		
P60's distributed to pensioner members	✓ - completed			
Recruitment of agreed additional resources	✓ - ongoing	✓ - ongoing	✓ - ongoing	✓ - ongoing
Annual pension in payment and CARE accrual increase exercise	✓ - pension in payment completed, Care accrual ongoing			
Annual submission of HMRC Event report				✓ - completed
Issue notices to employees for breaches of HMRC Annual Allowance limits			✓ - completed	
Provision of data to actuary to produce financial accounting required for employer accounts	✓ - completed	✓ - completed	✓ - completed	
Reconciliation of membership data for all employers	✓ - ongoing	✓ - ongoing		✓ - ongoing
Review and correct data errors		✓ - commenced	✓ - ongoing	
Process and reconcile membership pay and contribution data for year end	✓ - ongoing	✓ - completed		
Data quality assessment for the Pensions Regulator		✓ - commenced		
Possible implementation of McCloud judgement	✓	✓	✓	✓ - awaiting regulations
Possible implementation of revised 95k cap regulations		✓	✓	✓ - awaiting further consultation

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:

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	Budget 2021/22	YTD Dec 21	%	Forecast Outturn	Variance
	£'000	£'000		£'000	£'000
Administrative Expenses					
Staff Costs	1,021	552	54	736	-285
Premises	75	0	0	51	-24
IT	460	288	63	370	-90
Supplies and services	270	129	48	310	40
Other central costs	63	5	8	71	8
Cost of democracy	0	0	0	0	0
Other	15	0	0	0	-15
Total Administrative Expenses	1,904	974	51	1,538	-366
Investment Management Expenses					
Management fees	8,000	8,389	+100	11,190	3,190
Performance fees	0	1,110	+100	1,481	1,481
Custody fees	75	57	76	85	10
Brunel contract costs	1,065	933	88	933	-132
Tax & legal costs	25	3	12	3	-22
Transaction costs	500	132	26	132	-368
Total Investment Management Expenses	9,665	10,624	+100	13,824	4,159
Oversight & Governance Expenses					
Staff costs	235	118	50	177	-58
Audit fees	30	25	83	53	23
Actuarial fees	350	98	28	242	-108
Pension Committee/Board	20	6	30	7	-13
Performance monitoring service	120	95	79	100	-20
Investment consultancy	130	11	8	43	-87
Other professional fees	200	64	32	104	-96
Total Oversight & Governance Expenses	1,085	417	38	726	-359
Income					
Recoveries for services provided	-130	-68	52	-77	53
Total Pension Fund Budget	12,524	11,947	95	16,011	3,487

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The majority of the Funds Administrative and Oversight & Governance underspend relate to the level of vacancies in the team during the year. This is also reflected in the IT underspend in relation to required equipment and licences. The underspend in actuarial fees will be reflected in an increase in the 2022/23 budget, as this is based on the additional activities on the valuation process and fees are levied as the project progresses. 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.

There is an expected overspend of c£3.1m against fund management fees reflecting the increase in asset values under management and the nature of the fee structures. Fund management fees have increased as a result of moving more assets from passive to active portfolios and the change in the strategic asset allocation which resulted in increased investments to alternatives, particularly private equity, private debt and infrastructure which are subject to higher fee rates. The performance fee predominately relate to the Golub Private Debt investment. This investment is nearing the end of its Fund life and is now a distribution phase. Based upon the performance of this investment the manager has met and exceeded the hurdle rates (minimum return to investors/performance) which now triggers the performance fees.

The projected underspend in relation to Brunel Contract Costs of £132k relates to 2 main factors. The first factor relates to a change to the CIPFA accounting guidance relating to costs in relation to custody fees and transaction costs, which wasn't reflected in the original budget figure. We also received a rebate of £46k against our fees, which represented a budget underspend by Brunel for 2020/21 that returned to the Fund.

Priorities for 2022/23

For 2022/23 it is proposed to focus on 4 key areas in addition to the normal activities of the Fund. The details are contained in the business plan, attached as Appendix 1, but to summarise these core projects are:

- 2022 actuarial valuation and associated activities
- Pensions administration system contract review/renewal
- Pensions Dashboard (including a data improvement strategy)
- McCloud

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:

- Taskforce for Climate Related Financial Disclosure (TCFD) regulations

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- Consultation and/or regulations in relation to TCFD, Investment Pooling, Exit payment regulations
- Impact of Covid on funding, investment and/or administration
- Our partnerships Climate Stocktake outcomes

Budget 2022/23

The business plan 2022/23 sets out the Funds budget for 2022/23 and compares it with the budget for 2021/22. Overall there is an increase in the budget from £12.5m to £16.2m. 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 expenses, from £1.904m to £1.981m (c3.9%) anticipated pay growth at 2% and inflationary pressure on supplies and service costs which also includes an anticipated increase in legal support requirements.

The increase in oversight & governance expenses, from £1.085m to £1,130m (c4%) anticipated pay growth at 2% and the remainder of the increase relates to the additional activities as an outcome of the valuation process.

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

The major variation in the budget is on investment management expenses which have been increased from £9.6m to £13.2m. 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 investment into the alternative asset classes, infrastructure, private debt 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 has resulted 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 Committee approve the Business Plan for 2022/23 at Appendix 1 and note the current outturn position of the 2021/22 business plan contained in this report.

Contact Officer

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