

Agenda Item 9

Pension Committee

2 March 2023

Gloucestershire Pension Fund Business Plan 2023/24

Report of the Head of Pensions

Summary

The Fund's Business Plan 2023/24, as set out in Appendix 1 to this report, covers the Funds objectives, key areas of activity and budget for 2023/24.

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 2022/23 Business Plan and Budget

The following is a review of the agreed work plan of the business plan for 2022/23:

Governance

Task	2022/23			
	Q1	Q2	Q3	Q4
Review of Risk Register	✓	✓	✓	✓
Approval of External Audit Plan	✓			
Implement outcomes of the Funds Governance Review	✓	✓	✓	✓
Review and approve Business Plan				✓
Annual review against The Pensions Regulators Code of Practise				x – Awaiting the single code of practise
Approval of audited Fund accounts		✓ - draft accounts provided. Audit ongoing	✓ - Audit opinion on agenda.	
Approval of Annual Report			✓	
Review Policy Statements		✓	✓	✓
Training Needs Analysis			✓ - Assessment undertaken. Results due in Q4	✓ - Assessment undertaken. Results included into training plan
Review Breaches log	✓	✓	✓	✓
Monitor employer activity	✓	✓	✓	✓

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Funding

Task	2022/23			
	Q1	Q2	Q3	Q4
Review of ongoing funding position	✓	✓	✓	✓
Cash flow modelling			✓ - completed 1 quarter ahead of schedule	
Review the Funding Strategy Statement		✓ - Brought to Committee 1 quarter earlier	✓ - Consultation with stakeholders undertaken	✓

Investment Management

Task	2021/22	2022/23			
	Q4	Q1	Q2	Q3	Q4
Monitor Fund Performance	✓	✓	✓	✓	✓
Responsible Investment Reporting		✓		✓	✓
Review the Funds Investment Strategy Statement		✓	✓	✓	
Review the Funds Responsible Investment Policy				✓ - activity commenced with workshop in Q3	✓ - outcomes and next steps on agenda
Review the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) and requirements for UK Stewardship code signatory status	✓ - on the 2022/23 business plan	x – awaiting consultation from DHLUC	✓ - consultation on agenda. Workshop to be arranged to provide response	✓ - Response to TCFD consultation completed. Workshop undertaken in Q3	

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Administration

Task	2021/22	2022/23			
	Q4	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	
Annual pension in payment and CARE accrual increase exercise		✓ - completed			
Annual submission of HMRC Event report	✓ - completed				✓ - 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	
Reconciliation of membership data for all employers	✓	✓	✓	✓	✓ - ongoing
Review and correct data errors			✓	✓ - ongoing	
Process and reconcile membership pay and contribution data for year end		✓	✓	✓ - ongoing	
Data quality assessment for the Pensions Regulator			✓ - completed		

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Core Projects for 2022/23

The following is a high level summary of the progress of the core projects agreed as part of the business plan for 2022/23:

Project	Status	Comments
1. 2022 Actuarial Valuation and associated tasks	Completed	Completed to timetable
2. Review pensions administration system contract	Ongoing	Project will roll over into 2023/24 business plan.
3. Pensions Dashboard (including a Data Improvement Strategy)	Ongoing	Project will roll over into 2023/24 business plan.
4. McCloud	Not yet commenced	Currently awaiting specific LGPS regulations to be drafted now that the Public Service Pensions and Judicial Offices Bill has been laid in Statue. This project is ongoing and will roll over into the 2023/24 business plan.

Activity against the 2022/23 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 2022/23	YTD Dec 22	%	Forecast Outturn	Variance
	£'000	£'000		£'000	£'000
Administrative Expenses					
Staff Costs	1,041	610	59	895	-146
Premises	75	0	0	75	0
IT	460	313	68	417	-43
Supplies and services	320	72	23	320	0
Other central costs	70	5	7	70	0
Cost of democracy	0	0	0	0	0
Other	15	0	0	15	0
Total Administrative Expenses	1,981	1,000	51	1,792	-189
Investment Management Expenses					
Management fees	11,500	8,799	77	11,732	232
Performance fees	0	217	100+	289	289
Custody fees	75	45	60	60	-15
Brunel contract costs	1,120	1,100	98	1,100	-20
Tax & legal costs	25	1	4	10	-15
Transaction costs	500	0	0	500	0
Total Investment Management Expenses	13,220	10,162	77	13,691	471
Oversight & Governance Expenses					
Staff costs	240	129	54	211	-29
Audit fees	50	28	56	51	1
Actuarial fees	400	243	61	400	0
Pension Committee/Board	20	7	35	10	-10
Performance monitoring service	120	97	81	129	9
Investment consultancy	150	25	17	75	-75
Other professional fees	150	30	20	100	-50
Total Oversight & Governance Expenses	1,130	559	49	976	-154
Income					
Recoveries for services provided	-100	-84	84	-112	-12
Total Pension Fund Budget	16,231	11,637	72	16,347	116

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In summary a small overspend of £116k is forecast at year end against the approved budget for 2022/23. The main reasons behind forecast outturn position are provided below.

The majority of the Funds, Administrative forecast underspend of £189k relates 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 projected underspend on Oversight & Governance totaling £154k relates primarily on the decision not to undertake a full Strategic Asset Allocation review as part of the triennial valuation process in 2022/23, which reflects an underspend on investment consultancy. 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, albeit relatively small of £471k against Investment Management Expenses which reflects the fluctuation in asset values under management and the nature of the fee structures. Fund management fees continued to increase as the commitment to more investments in alternatives, particularly private equity, private debt and infrastructure which are subject to higher fee rates continues. The performance fee relates 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.

Priorities for 2023/24

For 2023/24 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:

- Pensions administration system contract review/renewal
- Pensions Dashboard (including a data improvement strategy)
- Responsible Investment Policy and TCFD reporting
- 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:

- Consultation and/or regulations in relation to Investment Pooling, Exit payment regulations
- Implementation of the anticipated Good Governance review recommendations

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Budget 2023/24

The business plan 2023/24 sets out the Funds budget for 2023/24 and compares it with the budget for 2022/23. Overall there is an increase in the budget from £16.2m to £17.4m. The main elements of this variation are explained in more detail below. The budget has been 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 £1.981m to £2.263m (c13%) reflects the inclusion of the second stage of the recruitment of the additional resources (c£82k) agreed by Committee in January 2021, which are planned to be recruited to within the budget year and associated IT costs. It also includes an additional post (c£50k) in the structure to retain the key knowledge and experience of the previous Pensions Administration Manager. It also anticipates pay growth at 4% as well as inflationary pressure on supplies and service costs which also includes an anticipated increase in legal support requirements.

The slight increase in oversight & governance expenses, from £1.130m to £1,141m anticipates pay growth at 4%, as well anticipated additional activities resulting from TCFD requirements and other additional consultations that will result in the need for additional professional bespoke services.

The budget for Committee and Board training reflects the requirements of good governance and the training strategy to ensure compliance with the CIPFA knowledge and skills framework, and the different ways training can be provided.

The variation in the budget on investment management expenses reflects anticipated investment growth in the overall assets of the Fund and the fact that management fees are charged as a fixed percentage of assets under management. The Brunel contract costs have increased to reflect the agreed operational budget and people strategy, which have been subject to scrutiny and challenge by officers and the Brunel Oversight Board before being approved by Shareholders, to ensure the continued delivery of the required services and to meet the new agreed objectives of the Partnership.

Recommendation

That the Committee approve the Business Plan for 2023/24 at Appendix 1 and note the current outturn position of the 2022/23 business plan contained in this report.

Contact Officer

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