

# CUMBRIA PENSIONS COMMITTEE

Meeting date: 16 June 2022

From: Pam Duke, Director of Finance (S151 Officer)

## PROVISIONAL BUDGET OUTTURN AND DELIVERY AGAINST 2021/22 PENSION FUND BUSINESS PLAN

### 1.0 EXECUTIVE SUMMARY

1.1 *This report advises Members of the work undertaken during 2021/22 to deliver the Business Plan and provides a provisional outturn for the Fund including variances against the budget.*

#### *BUSINESS PLAN 2021/22*

1.2 *All targets set within the 2021/22 Business Plan have been achieved during the year with key tasks either completed or are ongoing work that is on track for completion.*

#### *BUDGET 2021/22*

1.3 *The budget for administering the Cumbria LGPS in 2021/22 was approved by Pensions Committee in March 2021 as £6.467m. The provisional outturn for the service is £6.467m with the budget breaking even during the year. Excluding investment management fees, the Fund is forecast to underspend by £0.063m.*

### 2.0 STRATEGIC PLANNING AND EQUALITY IMPLICATIONS

2.1 *The purpose of the Fund is to pay Cumbria LGPS members' pension benefits in accordance with regulations and in a secure, affordable and sustainable manner over the short, medium and long term. To do this, the Fund seeks to:*

- ensure that sufficient resources are available to meet all liabilities as they fall due;*
- manage employers' liabilities effectively and enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the scheduled, resolution and admitted bodies;*

- *achieve and maintain Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future; and*
- *maximise the returns from investments within reasonable risk parameters taking into account the above aims.*

**2.2** *Good governance, including review of business plans and monitoring of the budget, aids the Fund in ensuring its regulatory responsibilities are met, scheme members receive a good service, costs are controlled and its required investment return is achieved.*

**2.3** *The cost of administration of the Cumbria LGPS has a direct impact on the funding level of the Fund and therefore the rate of employers' contribution. This will in turn impact on the employers' revenue budgets.*

**2.4** *There are no direct equality implications arising out of the recommendations in this report.*

### **3.0 RECOMMENDATIONS**

*It is recommended that Members:*

**3.1.1** *Note that business of the Pension Fund in 2021/22 was completed in accordance with the Business Plan approved in March 2021.*

**3.1.2** *Note that in 2021/22 the Cumbria Pension Fund broke even against its budget of £6.467m.*

### **4.0 BACKGROUND**

**4.1** As part of good governance arrangements, the Pensions Committee annually approves a Business Plan and associated budget for the following year. Additionally, the Committee reviews the half-year performance against both to ensure that items are on track for delivery. The 2021/22 mid-year report was reviewed by Pensions Committee in December 2021.

**4.2** In March 2021, Pensions Committee approved the 2021/22 Business Plan and budget for the Cumbria LGPS. This report provides an end of year update on delivery of the business plan and outturn position, concluding that all key deliverables in the 2021/22 business plan have been completed or are on track for delivery and within the approved budget.

**4.3** It should be noted that investment management costs are largely linked to asset value and investment performance and are therefore difficult to project or control. Excluding these costs, the Fund is forecast to underspend in 2021/22 by £0.063m.

### **2021/22 Business Plan**

- 4.4 The 2021/22 Business Plan is split into the three component parts of the service namely, Administration, Investment Management and Oversight & Governance.
- 4.5 A table detailing progress against each of the agreed objectives for the year is shown at Appendix 1 to this report. Good progress is being made in delivering the Business Plan with all aspects of the business plan either having been completed, on target or are on-going work that is progressing towards completion.
- 4.6 In addition to the 2021/22 Business Plan, originally approved in March 2021, the Fund has had to respond to unforeseen activities during the first half of the year. These activities include:
- Preparations for the impact of Local Government Reorganisation (LGR) on the Cumbria Pension Fund; and
  - Reviewing the implications for the Fund of an initial public offering (IPO) by one of its investment managers, including the relevant tax implications.

### **2021/22 Budget**

- 4.7 The original approved 2021/22 budget for administering the Cumbria LGPS was £6.467m.
- 4.8 The provisional outturn for the Fund in 2021/22 is £6.467m meaning that the Fund has provisionally broken even on its budget during the year.
- 4.9 As has previously been recognised by Pensions Committee, investment management fees are largely based on asset value and therefore, if assets increase greater than forecast in the year, management fees can be expected to overspend. Management fees overspent by £0.063m in 2021/22 (equivalent to 1.6% of the investment management fee budget) and administration and governance costs underspent by £0.063m.
- 4.10 Appendix 2 sets out the detailed budget and projected expenditure for this service. Additionally, a further Appendix is presented in Part 2 detailing commercially sensitive information relating to the budget and forecast expenditure for each of the investment managers. As in previous years, the format of the budget is consistent with CIPFA's requirements for the reporting of management expenses in the statutory accounts.
- 4.11 Performance against budget for each of the main sections is presented below together with a summary of staffing costs for the Fund.

### ***Staffing***

- 4.12 In accordance with CIPFA guidance, the staffing budget is split across both the Administration and Oversight & Governance sections of the budget. In total, staffing costs for the Pension Fund underspent by £0.039m due primarily to a number of vacancies within the team throughout the year. A vacant post within the team (which had been budgeted for) was filled on 25

October providing additional resource and resilience into the Pensions Administration team.

	2021/22 Budget (£)	2021/22 Provisional Outturn (£)	2021/22 Provisional Variance (£)
Administration: Employer Funding & Accounting	329,100	294,006	-35,094
Oversight & Governance: Pension Board	45,300	48,400	3,100
Other Governance	283,100	275,787	-7,313
<b>Total Staffing Budget</b>	<b>657,500</b>	<b>618,193</b>	<b>-39,307</b>

### **Administration**

4.13 The 2021/22 budget to manage pensions' administration arrangements is £1.772m. Provisionally, this budget has underspent by £0.040m in 2021/22. In addition to the £0.035m underspend on staffing referred in 4.12 above, Legal Services fees were £0.010m less than forecast and there was a small overspend of £0.005m on the work being undertaken by LPPA – primarily on GMP reconciliations.

### **4.14 Investment Management**

4.15 Investment management fees account for approximately two-thirds of the total budget and are difficult to predict and influence due to the link with asset values and manager performance.

4.16 It is provisionally forecast that the Fund will spend £4.072m on investment management fees in 2021/22, equivalent to £0.063m more than the original budget of £4.009m.

4.17 These fees are driven by the asset values and, as the Fund value was slightly higher throughout the year than projected when the budget was approved, the Fund has experienced higher investment management fees accordingly.

4.18 Due to the market confidentiality associated with investment management fees, a detailed breakdown of the fund management fees is presented as a Part 2 paper to this meeting (i.e. not for public disclosure).

### **Oversight & Governance**

4.19 The 2021/22 budget for the oversight and governance of the Fund, including the costs of supporting the Local Pension Board, is £0.686m. The provisional outturn for Oversight & Governance is £0.663m – an underspend of £0.023m. In addition to staffing costs referred in section 4.12 above, the

main costs within this section of the budget relate to actuary costs, legal fees and the professional advice received by the Fund at ISG and Pensions Committee and analysis of potential new investment products.

- 4.20 Costs of investment consultancy advice have underspent by £0.030m reflecting less requirement for this advice than budgeted at the start of the year.
- 4.21 The Local Pension Board has a budget of £0.005m for the provision of specialist advice and work. Specialist advice to the Board and to individual Board members resulted in spend of £0.002m during the year.
- 4.22 Actuarial fees during 2021/22 were just £0.001m less than budgeted, but of these, £0.012m less could be recharged to individual employers than initially planned.
- 4.23 Legal, Tax and other expenditure is forecast to overspend by £0.027m reflecting the work commissioned in the first half of the year. This includes £0.054m legal fees associated with the Fund's due diligence on a proposed Initial Public Offering (IPO) by one of its investments.

## **5.0 OPTIONS**

- 5.1 Members have the option consider and approve the report or request additional information from the Director of Finance (Section 151 Officer).

## **6.0 RESOURCE AND VALUE FOR MONEY IMPLICATIONS**

- 6.1 The resource and value for money implications are considered throughout this report.
- 6.2 When assessing the costs of investment manager fees, it must be recognised that these are based on the performance of the Fund. If actual performance of the portfolio is greater than originally projected, the investment manager fees may exceed budget.
- 6.3 The costs of administering the Cumbria LGPS will have a direct impact on the funding level of the Scheme which in turn affects the rate of employers' contribution assessed as part of the Fund's triennial valuation.

## **7.0 LEGAL IMPLICATIONS**

- 7.1 Under Part 2H of the Constitution 2.2 (j) provides it is a function of the Pensions Committee prior to the commencement of the financial year to approve an annual business plan and associated budget for that year to cover all matters of expenditure to be charged to the Pension Fund and to review performance against this throughout the year.

## 8.0 CONCLUSION

- 8.1 Active performance management and strong governance are required to provide an efficiently managed Pension Fund. Members have a statutory duty to ensure activities are in place to deliver these requirements.
- 8.2 Active management through setting, reviewing and monitoring against a detailed Business Plan and Budget are essential to achieve a robust governance and performance framework.
- 8.3 Good progress has been made on the completion of the approved business plan with all targets either having been completed or on target for completion to plan.
- 8.4 The 2021/22 approved budget for administering the Cumbria LGPS has provisionally broken even with spend in year equivalent to the budget of £6.467m. This is primarily due to investment management fees slightly overspending, and this being offset by underspends on administration and governance costs.

**Pam Duke**  
**Director of Finance (Section 151 Officer)**

**16 June 2022**

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## APPENDICES

**Appendix 1**                      **Progress against 2021/22 Business Plan**

**Appendix 2**                      **2021/22 Provisional Outturn Report for the Administration of the Cumbria LGPS**

Electoral Division(s):      All

Executive Decision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	No
Key Decision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	No
If a Key Decision, is the proposal published in the current Forward Plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	N/A
Is the decision exempt from call-in on grounds of urgency?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	No
If exempt from call-in, has the agreement of the Chair of the relevant Overview and Scrutiny Committee been sought or obtained?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	N/A
Has this matter been considered by Overview and Scrutiny?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	No

If so, give details below.

Has an environmental or sustainability impact assessment been undertaken?

		N/A
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Has an equality impact assessment been undertaken?

		N/A
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***N.B. If an executive decision is made, then a decision cannot be implemented until the expiry of the eighth working day after the date of the meeting – unless the decision is urgent and exempt from call-in and necessary approvals have been obtained.***

### **PREVIOUS RELEVANT COUNCIL OR EXECUTIVE DECISIONS**

***No previous relevant decisions.***

### **REPORT AUTHOR**

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### Progress against 2021/22 Business Plan

Objective	Progress in 2021/22
<b>1. Administration</b>	
1.1 Appraise the impact of revised regulations arising from the resolution to the McCloud age discrimination case and the re-running of the cost cap process, and implement any required changes to the Scheme.	<p><b>Ongoing:</b> Officers are currently awaiting the results of DLUHC's (formerly MHCLG) consultation and revised regulations to assess the impact to the Fund.</p> <p>Officers and LPPA are working with Fund employers to check that they have retained the relevant data to facilitate McCloud pensions calculations when guidance is provided.</p> <p>The actuary has concluded that the estimates included with the 2019 valuation of the Fund are not materially different from the proposed resolution and consequently no mid-term revaluation has been required to account for McCloud. Officers are discussing with the actuary how McCloud costs are to be incorporated into the 2022 valuation of the Fund.</p>
1.2 Continue to improve pension administration arrangements for the benefit of all members and employers of the Fund.	<p><b>Ongoing:</b> Officers have continued to work with management at LPPA to improve pension administration arrangements throughout the year.</p> <p>LPPA have continued to develop their website with the launch of a suite of videos aimed at scheme members and Fund employers.</p> <p>The Fund is currently developing its own website which is expected to go live later in the year.</p>
1.3 Continual improvement programme for the quality of data held by the Fund.	<p><b>Ongoing:</b> In advance of the 2022 Triennial Valuation, the Fund has focussed its data quality work on managing the number of scheme members for whom a leaver form is required from employers ("pending leavers").</p> <p>Officers have also continued their focus on verifying the home addresses of scheme members specifically those approaching the minimum pension age.</p> <p>The Fund has continued to monitor and address the outcomes of results of the National Fraud Initiative to mitigate any financial risks to the Fund of overpayments to pensioners.</p>



Objective		Progress in 2021/22
1.4	Continue to monitor and improve employer data submission issues.	<p><b>Ongoing:</b> Officers have continued close monitoring of the employer data submissions and intervened with any employers who have breached Regulations or the Fund policies. Work undertaken by Officers includes:</p> <ul style="list-style-type: none"> <li>• Monthly meetings to determine compliance and performance of Fund employers.</li> <li>• Review and reconciliation of monthly data records submitted by employers.</li> <li>• Where employers do not submit member data in a timely manner, this is reported on a quarterly basis to Pensions Committee and a detailed report is presented to the Local Pension Board.</li> </ul> <p>Intervention by Officers during the year has seen a significant decrease in the number of employers breaching Fund policies.</p>
1.5	Maintain effective communication and liaison with Fund employers to meet the data requirements of the Pensions Regulator.	<p><b>Ongoing:</b> Details of how the Fund communicates with employers are set out in the Fund's Communications Policy.</p> <p>Throughout 2021/22, the Fund and LPPA have continued to communicate with employers to provide support to them throughout the COVID-19 pandemic and brief them on current issues affecting the LGPS, e.g. issues related to the McCloud resolution.</p>
1.6	Scheme reconciliation - GMP (Guaranteed Minimum Pension).	<p><b>Complete</b> Data comparison between HMRC data and LPPA records, investigation and correction of variances has progressed well during 2021/22 with the work undertaken by LPPA now having been concluded.</p> <p>Any further GMP work undertaken by the Fund will be managed through normal "business as usual".</p>

Objective		Progress in 2021/22
<b>2. Investment Management</b>		
2.1	Investigate and implement suitable investment options to further implement the	<p><b>Ongoing</b> The Fund commissioned a "sense check" of the Investment Strategy Statement by Investment Consultants (Isio) for its suitability in light of the</p>

Objective	Progress in 2021/22
<p>Investment Strategy approved by Pensions Committee in December 2019 and revised in March 2021</p>	<p>market environment following the impact of the COVID-19 pandemic on financial markets. The resulting proposed Target Investment Strategy was agreed by Committee in March 2021.</p> <p>The continuation of capital drawdowns to previously agreed commitments to infrastructure, private equity and private debt funds as at end of September 2021 achieved the movement of the asset allocation to the revised Interim Strategy.</p> <p>Implementation steps were proposed by Investment Consultants (Isio) and discussed with the Investment Sub Group (ISG). Where appropriate, these were approved by the Pensions Committee in December 2021, after which work on the selection of suitable investments to implement the Target Investment Strategy has continued.</p>
<p>2.2 Monitor progress in moving towards the final target Investment Strategy and keep its ongoing suitability under review.</p>	<p><b>Ongoing:</b></p> <p>The Fund is in line with the agreed interim strategy and will progress for the next few years towards the final target strategic asset allocation. The position is reviewed at ISG and reported quarterly to the Pensions Committee. The overweight in multi-asset credit (which currently represents 13.7% of the Fund and is therefore broadly in line with the interim target of 14% but overweight relative to the target strategic allocation of 5%) will reduce as the Fund meets current commitments to alternatives and completes further work on the selection of suitable investments.</p>
<p>2.3 Liaise with Border to Coast Pensions Partnership Ltd (BCPP) to ensure that suitable opportunities exist within the pool for the Fund to transition to its amended Investment Strategy.</p>	<p><b>Ongoing:</b></p> <p>The Fund has continued to be active in influencing the range of sub-funds that BCPP provide with the aim of being reflective of the majority of Investment Strategy Asset classes.</p> <p>BCPP launched the Multi-Asset Credit sub-fund in late 2021. Sub-funds currently under development include UK and global property, in addition to further vintage funds in alternatives; Infrastructure, Private Equity and Private Credit.</p>
<p>2.4 Review the reporting requirements of the revised UK Stewardship Code (2020) with a view to</p>	<p><b>Complete:</b></p> <p>The 2020 Code sets high expectations on those investing pension fund monies, seeking to set a benchmark for the responsible allocation, management and oversight of assets to create long</p>

Objective		Progress in 2021/22
	the Fund reporting to the Financial Reporting Council (FRC) on the Stewardship of the Fund's assets for the 2020/21 fiscal year.	<p>term value and lead to sustainable benefits for the economy, the environment and society.</p> <p>The Fund's Stewardship report was approved by the FRC in April 2022, thereby evidencing the Fund's Stewardship activities meet the requirements of the code. Cumbria LGPS was one of just 13 LGPS Funds in the UK to deliver on the production of this report.</p>
2.5	Ensure that new Members to the Pensions Committee and/or Investment Sub Group receive full training in Fund investments.	<p><b>Ongoing:</b></p> <p>The Fund maintains a Training Plan designed to ensure that all Pensions Committee and Local Pension Board Members have the skills and knowledge to undertake their roles appropriately. Throughout 2021/22 Members have received training on Fund investments including how Responsible Investment is incorporated into the investment process; new and emerging topics in in Governance and Administration matters, and the upcoming triennial valuation process.</p>

Objective		Progress in 2021/22
<b>3. Oversight &amp; Governance</b>		
3.1	Completion of the 2020/21 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes.	<p><b>Complete:</b></p> <p>The 2020/21 Financial Accounts and Annual Report have been compiled in accordance with CIPFA's example accounts requirements. The accounts have been audited by Grant Thornton and found to be to a very high standard. An unmodified opinion was given with no recommendations arising.</p>
3.2	Assess the impact of and respond to consultations that will have an impact on the structure and performance of the Fund.	<p><b>Complete:</b></p> <p>The Fund responds to relevant consultations that have the potential to have an impact on the structure and performance of the Fund.</p> <p>During the year the Fund responded to the following consultations:</p> <ul style="list-style-type: none"> <li>• Special Severance Payments; and</li> <li>• The Pension Regulator's Consolidated Code of Practice.</li> </ul>
3.3	Review of	<b>Ongoing:</b>

Objective	Progress in 2021/22
governance arrangements in response to financial, regulatory and structural changes.	Officers attended a range of training courses and webinar broadcasts to assist in keeping abreast of changes to financial, regulatory and structural changes. Pensions Committee are briefed on any developments at each meeting.
3.4 Review and update the Fund's risks, policies and strategies	<p><b>Complete:</b> Risks and policy changes are reported to Committee on a quarterly basis.</p> <p>During the year amendments were approved by the Pensions Committee to the following policies of the Fund:</p> <ul style="list-style-type: none"> <li>• Admissions and Termination Policy; and</li> <li>• Funding Strategy Statement.</li> </ul> <p>All policies were then reviewed by Pensions Committee in March 2022 as part of the Fund's annual policy review.</p>
3.5 Review, measure and deliver training to Members and Officers as outlined in the Training Plan.	<p><b>Complete:</b> Delivering against the 2021/22 Training Plan was completed during the year.</p>
3.6 Review the findings of the SAB's Good Governance in the LGPS review and implement any required improvements within the Cumbria Fund.	<p><b>Complete:</b> The Fund has reviewed the findings of the SAB's Good Governance in the LGPS Review and developed an action plan to address how the findings can be implemented within Cumbria.</p> <p>This action plan has been reviewed by the Pensions Committee who have requested the Local Pension Board to oversee delivery.</p>

**2021/22 Provisional Outturn for the Administration of the Cumbria LGPS**

	<b>2021/22 Budget (£)</b>	<b>2021/22 Outturn (£)</b>	<b>2021/22 Outturn Variance (£)</b>
<b>Administration</b>			
<b>1 - Pensions Administration</b>			
Administration Collaborative Arrangements	1,394,900	1,396,019	1,119
GMP Costs	15,700	19,739	4,039
<b>2 - Employee Costs</b>			
Staffing & Accommodation - Employer Funding & Accounting	329,100	294,006	(35,094)
Training & Travel	2,000	1,529	(471)
<b>3 - Legal Advice</b>			
Legal Fees on Employer Issues	30,000	19,078	(10,923)
<b>4 - Other</b>			
Medical & Occ Health Fees	0	250	250
Other administration costs	0	1,100	1,100
<b>Administration Total</b>	<b>1,771,700</b>	<b>1,731,720</b>	<b>(39,980)</b>
<b>Investment Management</b>			
<b>1 - Fund Management Fees (excluding Border to Coast)</b>	748,300	742,012	(6,288)
<b>2 - Fund Management Fees - Border to Coast</b>	3,221,200	3,292,455	71,255
<b>3 - Custody Fees</b>	40,000	37,926	(2,074)
<b>Investment Management Total</b>	<b>4,009,500</b>	<b>4,072,393</b>	<b>62,893</b>
<b>Oversight &amp; Governance</b>			
<b>A - Employee Costs</b>			
Staffing & Accommodation - All other Governance	283,100	275,787	(7,313)
Staffing & Accommodation - Cumbria Pension Board	45,300	48,400	3,100
Training & Travel	2,000	3,925	1,925
<b>B - Pension Fund Committee</b>			
Border to Coast Joint Committee	3,600	0	(3,600)
Training & Travel	3,000	2,479	(521)
Subscriptions and Skills training	15,000	15,381	381
<b>C - Pension Board</b>			
National Scheme Advisory Board	10,500	6,514	(3,986)
Training & Travel	3,000	1,336	(1,665)
Specialist Advice & Work	5,000	1,678	(3,322)
<b>D - Investment consultancy fees</b>			
Independent Advice Pension Committee	30,000	14,246	(15,754)
Professional Advice - ISG & Strategy	40,000	56,381	16,381
Professional Advice - Pooling / Transition Management	37,000	6,072	(30,928)
<b>E - Performance monitoring service</b>			
Custodian Performance Monitoring	30,000	28,119	(1,881)
Independent Performance Monitoring	14,600	15,481	881
<b>F - Shareholder voting Service</b>			
Shareholding Voting Costs	10,000	10,050	50
<b>G - Actuarial fees</b>			
Actuarial Valuation	0	255	255
Actuary Fees - General	120,000	118,435	(1,565)
Actuary Fees - Recharged to Employers	(86,000)	(74,195)	11,805
<b>H - Audit fees</b>			
External Audit	35,000	31,208	(3,792)
Internal Audit	4,000	0	(4,000)
<b>I - Legal &amp; Tax</b>			
Class Action Recovery	12,000	12,000	0
Tax Reclaim Legal Fee	20,000	7,310	(12,690)
Investments	15,000	54,725	39,725
<b>J - Other (including bank charges)</b>			
Bank Charges	4,000	3,891	(109)
Other Fees & Expenses	30,000	23,672	(6,328)
<b>Oversight &amp; Governance Total</b>	<b>686,100</b>	<b>663,150</b>	<b>(22,950)</b>
<b>Grand Total</b>	<b>6,467,300</b>	<b>6,467,263</b>	<b>(37)</b>