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## **PENSION FUND BUDGET MONITORING TO 31 December 2021**

**Report by Director Finance & Corporate Governance**

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### **JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD**

**17 March 2022**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with an update position of the Pension Fund budget to 31 December 2021 including projections to 31 March 2022 and the proposed budget for 2022/23.**
- 1.2 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against.
- 1.3 To ensure the Fund meets the standards a budget was approved on 4 March 2021 following the recommendations within the CIPFA accounting guidelines headings. This report is the third quarterly monitoring report of the approved budgets.
- 1.4 The total expenditure to 31 December 2021 is £0.785m with a projected total expenditure of £7.160m against a budget of £7.147m. This projects a budget variance of £13k which represents the workshop and questionnaire to allow the Fund to agree ESG objectives and thus further enhance its ESG governance.
- 1.5 The proposed budget for 2022/23 is £7.288m and includes allowances for work required for McCloud and new costs for ESG objective measurement and TCFD reporting requirements
- 1.6 A key objective of the Fund is to pay pension benefits as they become due. Due to the maturing nature of the fund and this requirement the Fund has included within its investment strategy the requirement for income generating assets. The graph in para 5.3 shows the Fund has been able to fully meet its cashflow requirements.

## **2 RECOMMENDATIONS**

### **2.1 It is recommended that the Pension Fund Committee:-**

- (a) Notes the actual expenditure to 31 December 2021;**
- (b) Agrees the projected out-turn as the revised budget; and**
- (c) Notes the cashflow position; and**
- (d) Agrees the proposed budget for 2022/23**

### 3 BACKGROUND

- 3.1 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against. The Fund is required to report on an annual basis within its Annual Report if it has met these standards. To demonstrate full compliance requires the setting and monitoring of a budget for the Fund.
- 3.2 A budget was approved at the Joint Pension Fund Committee and Pension Fund Board meeting on 4 March 2021 for 2021/22. The approved budget follows the Local Government Pension Scheme management costs guidance issued by CIPFA into the following 3 categories.

Category	Costs included
Investment Management	All expenses incurred in relation to management of pension fund assets. Including costs invoiced direct and fees deducted from fund assets. Custody and performance fees also included
Administration	Costs incurred in administration of the fund including staff, IT costs and associated overheads, benefits consultants.
Oversight and governance	Costs incurred in the selection & appointment of managers, audit fees, investment advisory services, tax advisory, accounting services, banking service and support to the pensions committee and board.

### 4 MONITORING TO 30 SEPT 2021

- 4.1 The table below shows the expenditure to 31 Dec 2021, projected out-turn to 31 March 2022 and current approved budget for 2021/22.

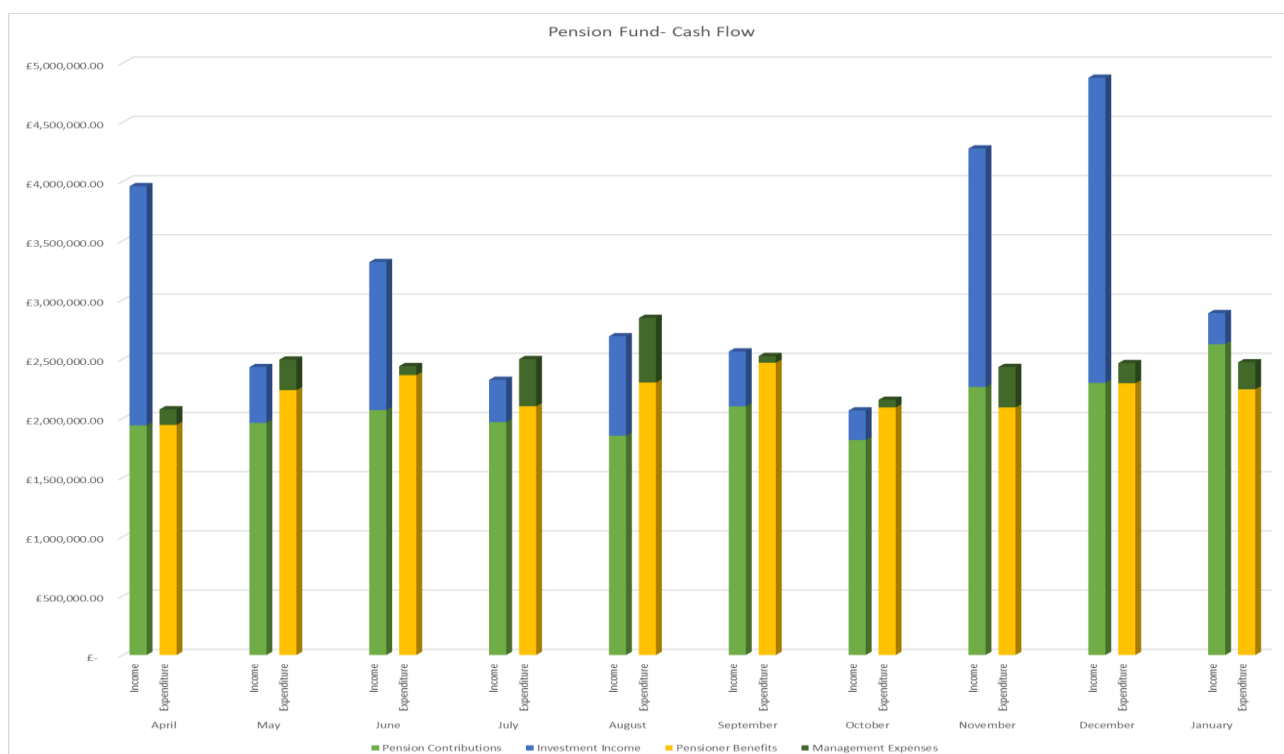
	Expenditure 31 Dec 21 £000's	Projected 31 March 22 £000's	2021/22 Budget £000's	2021/22 Variance £000's	2022/23 Budget £000's
Investment Management	364	6,420	6,420	-	6,564
Administration	269	381	381	-	407
Oversight & Governance	152	359	346	13	325
<b>Total</b>	<b>785</b>	<b>7,160</b>	<b>7,147</b>	<b>13</b>	<b>7,296</b>

- 4.2 Investment Management fees are charged on a quarterly basis in arrears based on the value of assets held on a quarterly basis. The third quarters investment management fees are not therefore included in the expenditure to 31 December 2021 totals.

- 4.3 Work continues with managers to allow monitoring and reporting of all fees on a quarterly basis using the Cost Transparency Initiative (CTI) templates. This requirement has been included as a requirement in the Infrastructure procurement exercise. Managers have mostly been able to provide the information on an annual basis to allow use for the year end accounts but their systems currently do not allow for quarterly reporting. Officers are working with other LGPS Funds to increase pressure on managers to resolve these issues.
- 4.4 The budget for 2022/23 investment manager fees is based on the current managers with full implementation of the approved strategic asset allocation.
- 4.5 The budget for 2022/23 for Administration includes an allowance for work required for both McCloud and a possible class action.
- 4.6 The additional £13k for oversight and governance represent work required for the setting of the Funds ESG objectives, via the questionnaire and workshop held on 28<sup>th</sup> February. The output from this a key step towards ensuring the Fund is able to meet the reporting requirements for Task Force on Climate Related Financial Disclosures (TCFD) which the fund will be required to undertake by 2024 and will also provide key evidence for the 2022 submission to FRC for the Stewardship Code. The agreed objectives and monitoring of these will enhance the Funds overall ESG governance.
- 4.7 The budget for 2022/23 Oversight and Governance costs includes the TCFD reporting requirements and measurement of the Funds ESG objectives.

## **5 CASHFLOW MONITORING**

- 5.1 A key objective of the Fund is to ensure the funds are in place to pay the members benefits. The Fund has been a mature fund since 2013/14 with the number of pensioners and their dependants exceeding contributing members. This in turn has resulted in the monthly cash out goings for pension benefits and expenses being higher than the contributions collected from active members.
- 5.2 To ensure the Fund continues to meet its primary objective the investment strategy approved by Committee incorporates an element of income generating assets to supplement member and employer contributions. These income generation assets are expected to enable the cash flow requirements of the Fund to be fully met without the requirement to disinvest from assets.
- 5.3 The table over details the cashflow movements for the previous 10 months. The graph reflects cash expenditure for pension benefits, investment manager fees and operational costs of the Fund. Income shown is the contributions received from employers and employee and investment income received as cash. The figures excluded any principle returned or invested.



5.4 The graph above shows some months with surplus income and others with deficits. However over the 10 month period shown the total cash income received was £31.4m, cash expenditure was £24.4m, resulting in a cash surplus of £7m over the period. This surplus has been utilised in part to fund draw down notices from the Infrastructure managers.

## 6 IMPLICATIONS

### 6.1 Financial

There are no costs attached to any of the recommendations contained in this report.

### 6.2 Risk and Mitigations

This report is part of the governance framework to manager the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risks are managed in line with the Corporate Risk Management framework, with risks and controls monitored and reported on a quarterly basis.

### 6.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required und the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio –economic factors have duly been considered when preparing this report.

#### 6.4 Sustainable Development Goals

There are no direct impacts from this report on the sustainable development goals of the Council.

#### 6.5 Climate Change

There are no direct climate change impacts as a result of this report.

#### 6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

#### 6.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

#### 6.8 Changes to Scheme of Administration or Scheme of Delegation

There are not changes to the Scheme of Administration or the Scheme of Delegation required as a result of this report.

### 7 CONSULTATION

- 7.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (People Performance & Change), the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

#### Approved by

**David Robertson**

**Signature .....**

**Director Finance & Corporate Governance**

#### Author(s)

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**Background Papers: Previous Minute Reference:** Joint Pension Fund Committee and Pension Fund Board 14 Dec 2021

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pension & Investment Team can also give information on other language translations as well as providing additional copies.

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