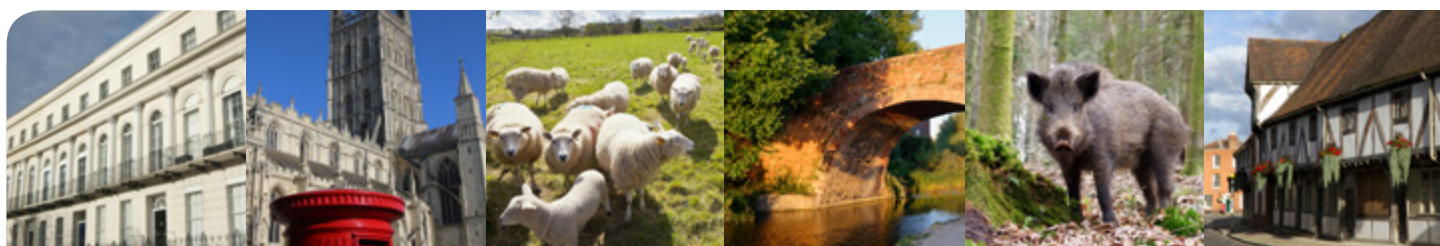


Gloucestershire Local Government

# Pension Fund



2019/20

Information contained in this report is provided for information purposes only. Nothing contained herein should be construed as a recommendation or solicitation to buy or sell any security. Please remember past performance is not necessarily a guide to future returns.

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# Introduction

It is with pleasure that we introduce this year's Annual Report of the **Gloucestershire Pension Fund**. It contains details of the administration of the Fund, together with its investments and accounts for the year to 31st March 2020.

This introductory section provides a summarised version of the key issues set out within the Annual Report and hence can be read as a standalone report.

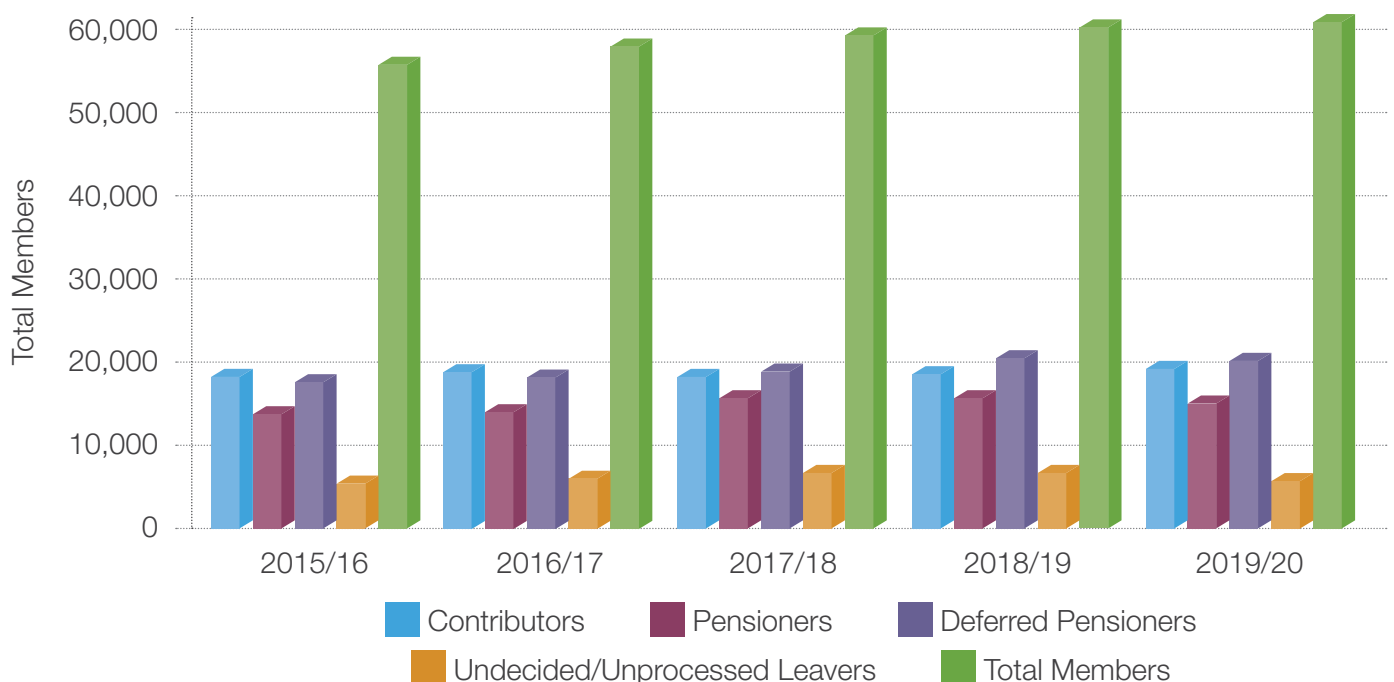
The Fund is managed and administered by Gloucestershire County Council on behalf of Gloucestershire local authorities, other bodies providing public services and certain admitted bodies, as part of the national Local Government Pension Scheme (LGPS) Regulations. The Fund collects employer and employee pension contributions in

relation to active employees of these organisations and meets the cost of pension benefits due to current and former employees.

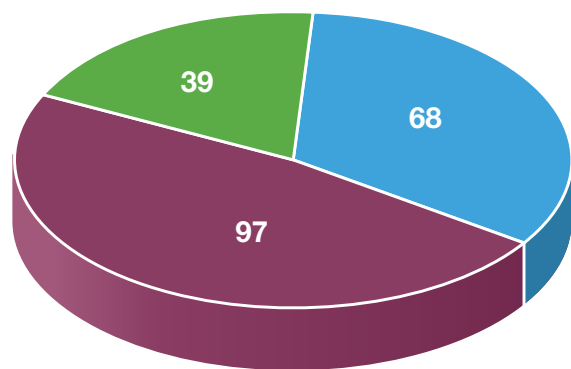
## Fund Membership and Employers

This report is primarily aimed at members and participating employer organisations within the Gloucestershire Pension Fund. In terms of Fund Members these have increased steadily over the last five years, as illustrated below.

**Membership Summary**

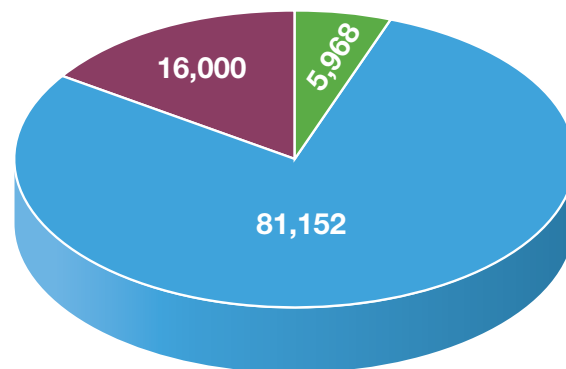


**Number of Employers 2019/20**



■ Admitted Bodies    
 ■ Academies    
 ■ Scheduled Bodies

**Total Contributions 2019/20**  
£000's



Membership at the end of 2019/20 stood at approximately 55,900, split between active contributors (19,121), pensioners (16,607) and deferred members (20,173). There were also unprocessed leavers (4,516) at the end of the period. This equates to a fall of 174 compared with the position at the end of 2018/19. A more detailed breakdown of membership can be found on pages 31 to 32 in the main body of the report.

With regards to participating employers, the Pension Fund has seen a net decrease of one employer during 2019/20 bringing the number of total employers to 204. A breakdown of employer groups and contributions received is shown graphically above. Contributions received from employers and employees totalled £103.1m during the year.

A detailed breakdown of all participating employers and the total value of contributions received during 2019/20 can be found on pages 34 to 37 in the main body of the report.

### Policy Documents

The latest version of the Fund's policy statements covering Investment Strategy, Funding Strategy, Governance and Communication, as well as a brief

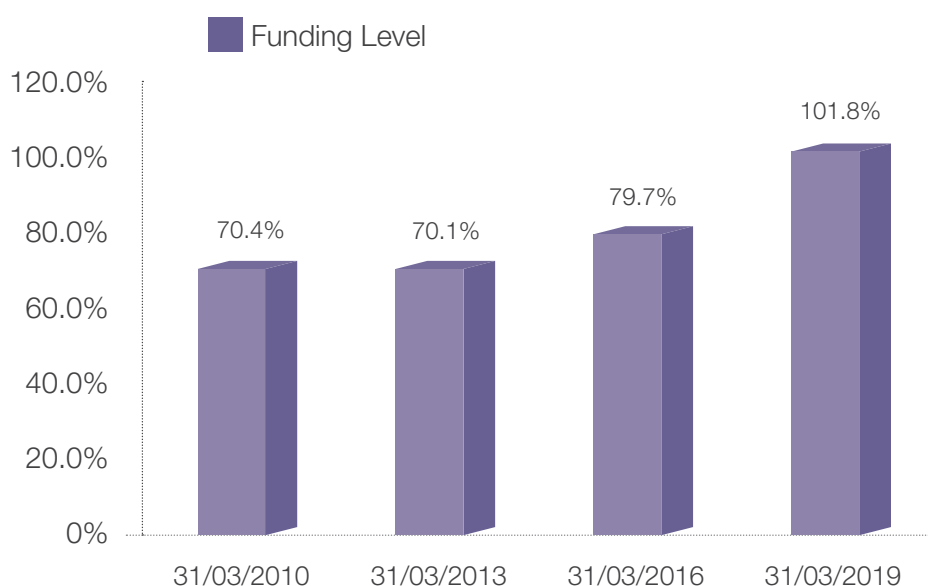
summary of scheme benefits are also included within the main body of the report.

### Actuarial Arrangements

An actuarial valuation of the Fund is undertaken every three years. The detailed actuarial report on the 2019 valuation of the Fund can be found on pages 46 to 47. This outlines the approach taken to secure Fund solvency while keeping employer contributions stable and also gives details of the actuarial assumptions and methods used to value liabilities at the 2019 triennial valuation. The Fund's assets, as at the 2016 triennial valuation were valued

at £1,703 million, which were sufficient to meet 79.7% of the liabilities (i.e. the present value of promised retirement benefits), accrued up to that date. The Fund's assets, as at the 2019 triennial valuation were valued at £2,379 million, which were sufficient to meet 101.8% of the liabilities accrued up to that date.

The funding levels at the last four triennial valuations are shown in the graph below. Further details of the rationale and assumptions used to calculate these funding levels can be found in the main body of the report.



## Investment and Fund Performance

During 2019/20 the Fund achieved a -6.2% return on its investments, placing Gloucestershire 45th out of the 61 LGPS Funds measured by PIRC Local Authority Pension Performance Analytics (who monitor the performance of Pension Funds). Despite this, the long-term performance of the Fund has been positive. Over a ten year period annualised performance was +6.8%, placing the Fund 27th out of the 61 LGPS Funds measured over that period.

An analysis of the performance of the Fund compared with the other LGPS Funds and its strategic benchmark is shown on the right. The position of the Gloucestershire Fund is presented as a red diamond in each of the relevant bars. The higher the positioning, the higher the Fund scored in comparison to it's peers in terms of absolute return over 3, 5, 10 and 20 year periods.

The value of the Fund's assets as at 31st March 2020 was £2,244.6 million. This represented an overall decrease of £134.1 million compared with the position at 31st March 2019. The value of the Fund at the end of the last ten financial years is shown in the graph on page 6.

The Fund undertakes their investments in accordance with the Strategic Asset Allocation. This Strategic Asset Allocation was reviewed in detail during 2019/20, with a new allocation being agreed by the Pension Committee which is set out in the Investment Strategy Statement (ISS). A copy of this policy, along with details of the Fund's investment and performance, is available on pages 136 to 143 and 19 to 25 respectively of the full report.

## Statement of Accounts

The full Statement of Accounts of the Fund for the year ended 31st March 2020 and the auditors report in relation to these accounts can be found on pages 63 to 103.

## Scheme Details

We remind both existing and future pensioners, that the Local Government Pension Scheme (LGPS) is determined by statutory legislation. This legislation can only be changed by the Government via the Ministry of Housing, Communities and Local Government (MHCLG) and the scheme cannot be changed by the County Council or other scheduled employers of the Gloucestershire Pension Fund.

Following a review by the Public Service Pensions Commission a new LGPS scheme was introduced, commencing from 1st April 2014. The terms of the LGPS scheme only apply to new pensionable service accrued with effect from April 2014. Previously accrued pensionable service and pensions in payment prior to April 2014 are not affected.

Further information on the main features of the 2014 LGPS scheme can be found on page 146.

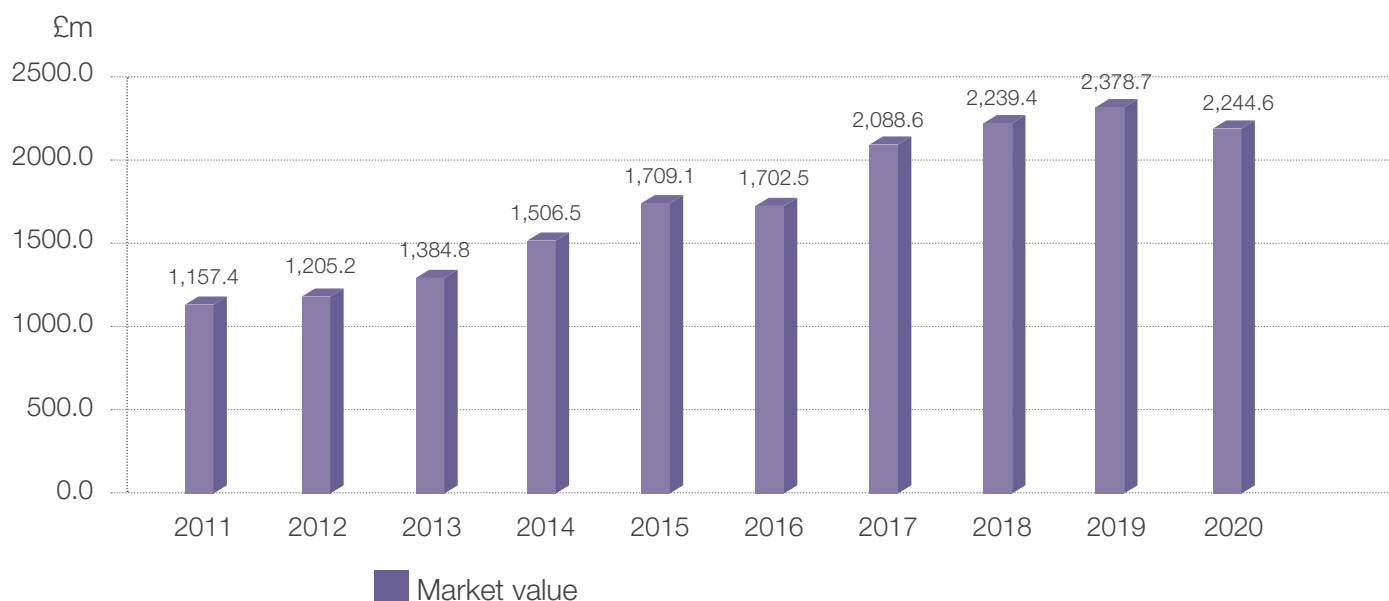
## Pensions Administration

Details relating to the administration of the Gloucestershire Pension Scheme are shown on pages 26 to 30.



Annualised Returns	3 years	5 years	10 years	20 years
Fund	1.1%	4.2%	6.8%	5.0%
Universal Average	1.9%	5.2%	6.9%	5.5%
Ranking	(46)	(42)	(27)	(32)

## Market value of Fund by year £m



and also within the Administration Strategy at page 39.

The Public Service Pensions Act 2013 and LGPS regulations required LGPS Funds to set up local Pension Boards from 2015/16. Their role, which continued in 2019/20, is to assist administering authorities in ensuring compliance with LGPS and other pension regulations. More details of the membership, meetings and work of the Gloucestershire Pension Board in relation to 2019/20 can be found on page 53.

### LGPS Pooling

In July 2015 the Government announced their intention for LGPS Funds to set up investment pooling arrangements. This involved a number of LGPS Funds with assets totalling approximately £30 billion jointly investing in the various asset classes, as chosen by each Fund, via a FCA approved organisation. The aim of this approach is to reduce investment manager fees whilst not adversely affecting, or even improving,

individual Fund investment performance. During 2016/17 the Government approved and issued new investment regulations for the LGPS Funds to both facilitate and ensure investment pooling took place.

The Gloucestershire Fund is collaborating with nine other LGPS Funds from the South West of England and has established a new FCA regulated investment pooling company called the Brunel Pension Partnership (BPP). This process is ongoing and the ten Funds are continuing to transfer their investments into the BPP as envisaged by Government. As at 31st March 2020, £1,285m of Gloucestershire investments were under the management of the BPP, this equates to 57.3% of the total assets of the Fund at 31st March 2020. Further details of our pooling progress can be found on pages 104 to 108 of the full report.

### Our Thanks

We express our thanks to all those involved with the investment, accounting and

pension administration activities of the Gloucestershire Fund, and the development of the Brunel Pension Partnership. In this, we acknowledge the continuing work of the members of the Pension Committee, whose membership is shown on page 11, in overseeing the Fund's investment management and administration arrangements as well as the support from the Pension Board, whose membership is shown on page 53, in assisting the administering authority to comply with the LGPS and other pension regulations.

### Cllr Raymond Theodoulou

Chairman of the Pension Committee

### Steve Mawson

Director of Corporate Services

### Paul Blacker

Director of Finance



# Independent Investment Advisor's Report

## Economic background

The first nine months of the 2019/20 financial year seems like an oasis of calm in hindsight. The global economy was growing, albeit at a reduced rate, interest rates were low and inflation subdued. Investment returns from this period were decent without being exceptional and the Fund's investment return was slightly ahead of its benchmark. The financial year to March 2020, however, will forever be associated with the Covid-19 virus and ensuing economic lockdown affecting over half the global population. The human cost of this has been huge and our thoughts go out to all those who have been adversely affected by this crisis.

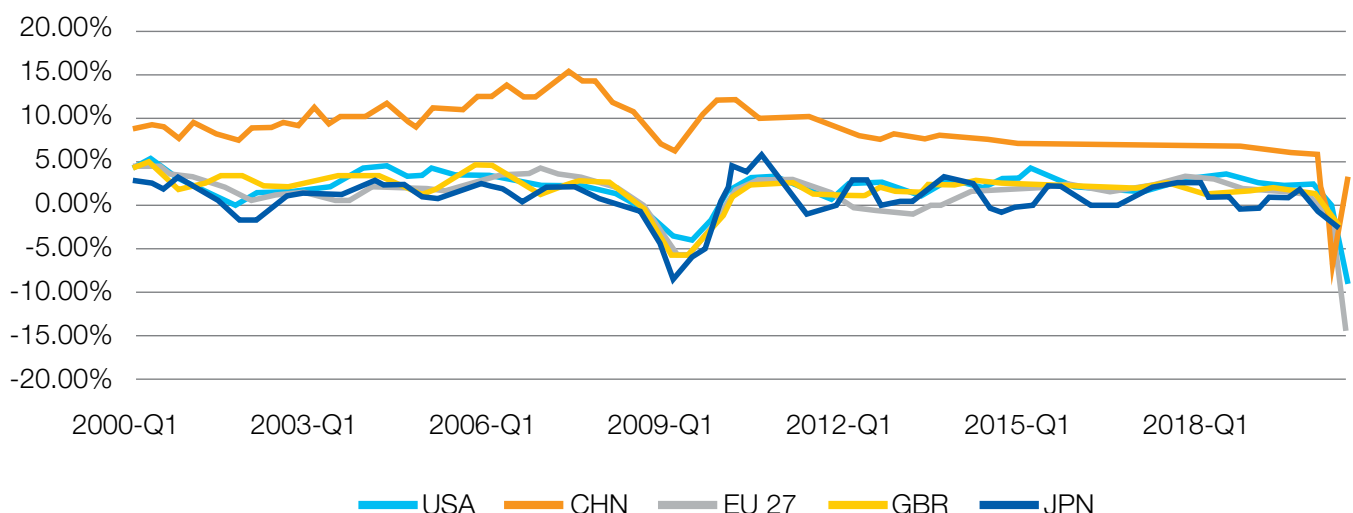
The Covid-19 pandemic is unlike any other crisis we have experienced in living memory. The need to stop the spread

of the virus and thereby avoid overwhelming national healthcare systems, has necessitated a massive reduction in human contact. To achieve this, many governments across the world initiated an economic lockdown, restricting the movement of entire populations in a manner which would have been unthinkable only a few short months before. This brought on the fastest economic downturn we have seen in a generation and created turbulence within investment markets.

In a normal recession, as demand falls, so do corporate profits and cashflows and so investors worry about dividend cuts and ultimately a company's ability to pay interest on their debt. It is this concern which causes investments to fall. In this crisis, the economic downturn has been more severe and come faster than anything previously experienced.

In addition, the impact of the economic lockdown has not been uniform. Companies which rely on social interaction or a high density of customers (Airlines, Hotels, Shops) have seen their revenues drop to zero almost overnight, bringing their entire business model into question, whereas, many of those offering services remotely (Information Technology, Online Retail) have seen increased demand. Because of this, the effect on individual investments has been very varied and often outside of previous expectations. For corporate debt, high quality companies would be expected to be rated as 'Investment Grade' suggesting a very high likelihood that the debt will be repaid when it becomes due. Companies which have lost that status over the first few months of 2020 include the Ford Motor Corp, food producers Kraft and Heinz and Macy's the

GDP Growth





US department store to name but a few. These are not companies which are likely to go bankrupt but where current conditions are having a significantly adverse impact on their business.

As Covid-19 struck it reduced the demand for many products including oil. A battle for market share between Saudi Arabia and Russia ensued which resulted in the oil price falling 65% in the first quarter of 2020; putting additional strain on the finances of many oil exporting nations and energy companies and adding to the uncertainty for investment markets.

At the time of writing, Virus hotspots are now the United States, Russia, India and Latin America but localised virus hotspots are appearing across the globe in countries which had previously worked hard to eradicate the virus.

The chart on page 7 shows the change in quarterly GDP on the same quarter twelve months previously. The scale of the Covid-19 related downturn exceeds that of the Global Financial Crisis in 2008/9 both in terms of scale and speed of onset.

## Market returns

As noted earlier, during the first 9 months of this financial year, all major asset classes produced positive returns. During this period the Fund rose by 8.1% to reach a value of over £2.58bn, as at 31st December 2019. Everything changed during March 2020 as the Covid-19 virus and ensuing economic lockdown hit. By the

end of the 2019/20 financial year the Fund had fallen in value to £2.24bn declining in value by -13.2% during the final quarter of the financial year and by -6.2% for the 2019/20 financial year as a whole.

Equity markets fell across the world with the FTSE index of developed equity markets falling by over 20% in Sterling terms in the final quarter of the financial year and by over 10% for the financial year as a whole. The UK market was particularly badly hit as it contains a high percentage of Financial, Oil and Mining related companies, all of which were badly affected by the crisis as well as continuing uncertainty over the post BREXIT outlook for the economy. The UK FTSE All-Share index finished the financial year down -18.5%.

Bond markets were also disrupted by the Covid-19 crisis with corporate bonds suffering a sharp sell-off, even for high quality, Investment Grade bonds, as the economic lockdown brought some businesses to a complete halt. Government Bonds also fell during the start of the Covid-19 related market fall as investors panicked and sought to hold only US Dollar cash and eschew all other assets. However, once central banks supplied extra liquidity to investment markets, Government Bonds recovered. By the end of the financial year it was only developed world government bonds and gold which had produced a positive return with all other major asset classes seeing falls in value. Less liquid

asset classes such as property and infrastructure were difficult to price during the rapid market fall experienced in the final month of the financial year and the majority of property funds restricted trading during this period.

Whilst all of this sounds a concern, I would note that most asset classes have recovered at the time of writing as central bank and government actions have supported markets. In addition, the Fund had a strong funding ratio at the time of the last actuarial valuation and remains committed to investing over the long term to meet its liabilities.

## Fund returns

Gloucestershire County Council Pension Fund returned -6.2% for the fiscal year 2019/20, taking the fund to a value of £2.24 billion. The return achieved by the Fund was below the -4.7% return of the strategic benchmark for the year. The Fund performance was heavily affected by the final quarter when the Covid-19 virus hit, falling -13.2% during that period and underperforming the benchmark by -1.7%. This underperformance undermined the longer-term performance against the benchmark and the Fund now lags the return of the benchmark by -0.4% per annum over the last 10 years, returning 6.8% against 7.2% per annum for the benchmark.

A number of the benchmarks set for individual portfolios within the Fund, such as Global Credit and Multi-Asset assume a long-term return target of a set percentage return per annum irrespective of

underlying market conditions. During periods of market decline the respective portfolio will underperform its benchmark and this happened during the final quarter of the 2019/20 financial year. In addition, the Fund was more heavily exposed to equities as we entered the Covid-19 crisis than its benchmark and, again, this exaggerated the market decline. The underperformance experienced in the final quarter has been recovered as markets have recovered during the first quarter to end June 2020 of the new financial year. The underperformance over the longer-term has been due to a small number of managers underperforming their respective benchmarks. These managers are being replaced over time as the management of the Fund's assets is taken over by Brunel Pension Partnership, the LGPS pool which Gloucestershire is a member of.

### **Brunel Pension Partnership – Pooling**

The Fund has continued to transfer the management of its assets to the Brunel Pensions Partnership which is the LGPS pool responsible for managing all LGPS assets in the South West region. The Fund's assets will remain segregated within Brunel and managed purely in the interest of the members of the Gloucestershire County Council Pension Fund.

During the year the Fund's remaining holdings in UK, Global and Emerging Market Equities have been successfully transitioned across to the Brunel pool. This move into the Brunel pool gave the Fund the opportunity to invest part of its Global Equity portfolio into a new Sustainable Equity portfolio for the first time. Brunel have a strong commitment to the environment

and investing responsibly. Any members particularly interested in this area should visit the Brunel website for further information. In addition, the Fund's officers and Pensions Committee will continue to challenge all its investment managers in the areas of environmental and social responsibility and governance structure, expecting adherence to the highest standards, in the belief that this will improve the long-term returns of the Fund.

Brunel will be responsible for the selection of investment managers going forward whilst the Gloucestershire County Council Pension Fund remains responsible for the strategic asset allocation of the Fund.

### **Review of the Strategic Benchmark**

Once every three years the Fund undertakes an actuarial revaluation which calculates the current value of the Fund's liabilities (future pension payments) and the investment return required to meet these liabilities going forward. This took place during the 2019/20 financial year. Following on from this, the Fund reviewed the make-up of its Strategic Benchmark which is the target allocation between asset classes which best fits the Fund's long-term risk and return requirements.

Due to the actuarial revaluation showing that the Fund's funding position had improved, the amount of risk the Fund was taking in its investments could be reduced slightly. This will be achieved by reducing the exposure to Equities and bonds and increasing the exposure to Infrastructure, Private Equity, Direct Lending and International Property. This greater diversification of the Fund's assets should enable it to meet its return target with less risk.

As the targeted asset classes for investment are less liquid, it will take a number of years to complete this reallocation of the scheme's assets. Equities will remain the majority of the Fund's assets as the Committee continues to believe they offer the best risk adjusted return over the long-term.

### **Outlook**

The economic damage from Covid-19 is obvious but the central assumption remains that it will be transitory and relatively short-lived. However, life has changed, and it is unlikely we will entirely revert to previous practises, either behaviourally or as a society. Many of these changes are accelerations of existing trends; increased use of video calls and social media apps; working from home etc. For the Pension Fund it is the changes to the long-term outlook that are important because the Pension Fund is investing over the long-term.

The most interesting debate is about the future state of the global economy. Central banks responded to the Global Financial Crisis in 2008/9 by lowering interest rates towards zero and when this was not enough to stimulate the economy, they commenced Quantitative Easing (QE) (the direct purchase of bonds) to push down interest rates for longer-term borrowers. In this crisis, central banks across the developed world have restarted their QE programmes at an unprecedented rate, forcing long-term borrowing rates down to ultra-low levels. In addition, governments have taken on spending commitments on a truly massive scale in order to limit the collapse of their domestic economy. It is questionable whether this build-up of government debt will ever be

fully repaid in today's terms; the economic cost will be too great.

Governments will likely, therefore, take three actions:

- Increasing taxes.
- Encouraging central banks to continue their QE programmes and thereby keep interest rates at ultra-low levels well into the future. This keeps the cost of servicing the government's debts low.
- Accepting a level of inflation that remains above interest rates and thereby depreciates the stock of debt in real terms.

The immediate impact of the current recession is for inflation to fall. In the medium-term, however, interest rates are likely to remain low because, post an economic recovery from the current lockdown, it seems unlikely we will leave the previous environment of low growth. The higher inflation rate will come from the extra business costs of creating a more secure supply chain; producing less in low cost locations to reduce complexity and greater government regulation and involvement in the private sector. All these costs will be passed on to the end consumer in the form of higher prices. Having interest rates below inflation for much of the developed world will make it harder for asset owners, including this Fund, to retain the real value of their assets into the future.

The requirement for companies to act in a socially acceptable manner and for investors to pressurise them to do so is another issue which this crisis has reinforced. This is a challenge for a capitalist system, put bluntly, either the true cost of the environmental and social damage caused by a company's production and products is fully priced and companies bear this

cost as part of their business, or, shareholders recognise that a company has a much broader set of responsibilities than maximising returns. This means a greater acceptance that the shareholder can no longer be the primary focus and a broader group of stakeholders, which will undoubtedly include broad society and the environment, will be the focus going forward. Either approach would seem likely to alter return expectations into the future, but change is necessary and appears to be inevitable.

**John Arthur**

**August 2020**

# Overall Fund Management

## Scheme Management and Advisors

**Administering Authority:** Gloucestershire County Council

**Pension Committee at 31st March 2020**

**Representing Gloucestershire County Council:**



Cllr. R. Theodoulou  
(Chairman)



Cllr. D. Brown



Cllr. C. Hay



Cllr. S. Parsons



Cllr. R. Smith



Cllr. L. Stowe



**Representing  
Gloucestershire  
District Councils:**

Cllr. N. Cooper



**Representing  
Scheme  
Members:**

Mr. P. Clark

### County Council Officers:

Mr. S. Mawson  
Executive Director Corporate Resources  
(and Section 151 Officer)

Mr. P. Blacker  
Director of Finance

### Asset Pool and Asset Pool Operator

Brunel Pension Partnership Ltd.  
[www.brunelpensionpartnership.org](http://www.brunelpensionpartnership.org)  
e-mail: [info@brunelpp.org](mailto:info@brunelpp.org)

### Independent Advisor:

Mr. J. Arthur, MJ Hudson Investment Advisers Ltd.

### Fund Actuary:

Mrs J. West, Hymans Robertson LLP  
Mr. D. Green, Hymans Robertson LLP

### Scheme Administrator:

Gloucestershire County Council

### Investment Managers as at 31st March 2020:

Aberdeen Standard Investments  
Arcmont Asset Management Ltd. (formerly BlueBay)  
BlackRock Advisors (UK) Ltd.  
Brunel Pension Partnership Ltd.  
CBRE Global Investment Partners (CBRE)  
Golub Capital Partners International  
Federated Hermes Investment Management  
Western Asset Management Company Ltd.  
Technology Venture Partners LLP (TVP)  
Yorkshire Fund Managers Equity Partners (YFM)

### AVC Provider:

Prudential Assurance Company Limited  
Phoenix Life Limited

### Auditor:

Grant Thornton UK LLP

### Global Custodian:

State Street Global Services

### Performance Measurement:

State Street Global Services  
PIRC Limited

### Banker:

HSBC

### Legal Advisor:

Gloucestershire County Council in-house legal team



## Post Year-End Changes

Councillor N. Cooper resigned and was replaced by Councillor D. Gray with effect from 1st April 2020.

## Enquiries

For information/contact details for committee members, fund managers and advisors or for details regarding the Fund's investments and accounting activities, please contact the Pension Investment Team at Shire

Hall, Gloucester, phone (01452) 328946.

For details of Local Government Pension Scheme benefits and administration, please contact the Pension Administration Manager at Shire Hall, Gloucester, phone (01452) 328866.

## Complaints

In the event of a complaint members should contact the Pension Administration Manager at Shire Hall, Gloucester, phone (01452) 328866 in the first instance.

## Website

Investments and Accounting  
[www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments)

Benefits and Administration  
[www.gloucestershire.gov.uk/pensions](http://www.gloucestershire.gov.uk/pensions)

## Pension Schemes Registry Number:

PSR 10079170

## > Risk Management

The Pension Fund maintains a Risk Register which is reviewed and reported to every Pension Committee and Pension Board meeting. Risks are rated on a "traffic light system" and assigned to a lead officer for monitoring and review. Controls are documented and further actions identified where necessary.

The risks associated with the Fund's administration, management and investments are included in the Funding Strategy Statement (FSS). The risks and actions to manage and reduce them are shown within the FSS on pages 126 to 129 of this report.

In addition, the Fund's Statement of Investment Principles was superseded by the Investment Strategy Statement (ISS) with effect from 1st April 2017 and should be read in conjunction with the Fund's Funding Strategy Statement (FSS). The ISS sets out the roles of the Fund's investment managers and custodian, who have a responsibility for the management and safeguarding of the Pension Fund's assets, as well as the requirement to invest money in a wide variety of investments. The ISS also covers the authority's approach to risk,

including the ways in which risks are to be measured and managed, as well as the approach to pooling investments, including the use of collective investment vehicles and shared services. The statement outlines the authority's approach on how social, environment or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments, and the authority's policy on the exercise of rights (including voting rights) attaching to investments.

Internal auditors also evaluate both risk and controls for the main areas of governance, pension administration and investment management. This includes third party risk and involves obtaining assurances from the external fund managers on their governance and administration arrangements as well as acquiring copies of their latest audited accounts and internal control assurance reports. The internal audit results then feed into an annual governance statement.

## Other Third Party Risk

The receipt and calculation of employer pension contributions

is monitored monthly. Employers are required to complete a return which reconciles to the pension payment and verifies the calculation of both employee and employer contributions.

## Other Investment Risk

The Pension Fund employs an Independent Investment Advisor to assist and advise the Pension Committee. Investment performance is reviewed by committee every quarter. In addition the Independent Advisor has regular in-depth meetings with investment managers to review performance and report back to the Pension Committee as appropriate. During 2019/20 performance data was provided by the Brunel Pension Partnership and the custodian to the partnership, as well as by an independent specialist company, PIRC Local Authority Pension Performance Analytics. Performance is measured against both a customised fund benchmark and mandate specific benchmarks.

The Investment Strategy Statement (ISS) contains further details of how the Fund controls risk linked to its investments.

There is an additional note on the Nature and Extent of Risks Arising from Financial Instruments within the Notes to the Accounts on pages 91 to 97.

In addition to the risks identified within the ISS, the Internal Audit, Risk and Assurance function carries out audits of the Pension Fund in accordance with their Internal Audit Plan each year. During 2019/20 the following conclusion was reached in relation to work carried out for the period:

The 'Pensions Assurance Statement 2019/20' review identified the risks detailed below relevant to the 2019/20 Annual Governance Statement. All of these risks were known to management, and appropriate action was being taken to address these risks.

- Pensions senior management post vacancies:

- Position/Risk: As at May 2020, the Head of Pensions post and the Finance Manager (Pensions) post are vacant.
- Mitigating action:
  - A new Head of Pensions was appointed in September 2020 and commenced in November 2020. The new Head of Pensions will evaluate the Finance Manager post.

- Interim arrangements were put in place during the time without a Head of Pensions, with acting up arrangements and an officer support offer from the Director of Finance (line manager of the Head of Pensions post), the Strategic Finance team and input from the ex Head of Pensions.

- Theme considered on the Risk Register (risk G5 February 20) and to be updated.

- Pension Board meeting volume and quorum:

- Position/Risk: The role of the local Pension Board is defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013. The GCC Pension Board met once within 2019/20 and this meeting was not quorate. The Pension Board terms of reference (original and updated versions) requires the Board to meet no less than twice per year, in order to fulfil their role.

- Mitigating action: Pension Board terms of reference update was completed in February 2020. The Pension Committee agreed to increase Board membership, update other criteria and mitigate the risk of future Board meetings being non quorate. New Board Members have now been

appointed to take the new membership up to the full level of seven members.

- Theme considered on the Risk Register (risk G7 February 20) and to be updated.

- Covid-19 impact on fund market value and Pension Fund operations:

- Position/Risk: The worldwide Covid-19 position will have impact on market values and hence pension fund market values. Lockdown restrictions have also impacted the Pensions team operational delivery.

- Mitigating actions:

- Ongoing review of the Pension Fund performance position by senior management, Pension Committee and Pension Board. Fund value/return/performance risks are reflected within the Risk Register (risk F February 20).
- Pensions section service management through a combination of home working and officer working (e.g. for pensions administration), which has supported the effective provision of key pension services up to the point of audit review.

## > Financial Performance

The Fund account (page 67) indicates a decrease in the net assets of the scheme available to fund benefits during the year of -£134.1m for 2019/20; this follows an increase of £139.3m in 2018/19. The summarised figures are shown in the table opposite.

## Financial Summary

	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
Contributions and investment income *	124.3	140.0	168.3	145.7	<b>140.7</b>
Realised profit/(loss)	14.1	237.9	55.9	196.4	<b>350.3</b>
Less benefits and other expenses *	(82.8)	(88.7)	(91.8)	(97.3)	<b>(106.6)</b>
Annual surplus/(shortfall)	55.6	289.2	132.4	244.8	<b>384.4</b>
Increase/(decrease) in market value of investments	(62.2)	96.9	18.4	(105.5)	<b>(518.5)</b>
Increase/(decrease) in Fund during year	(6.6)	386.1	150.8	139.3	<b>(134.1)</b>
<b>Market Value of net assets at 31st March</b>	<b>1,702.5</b>	<b>2,088.6</b>	<b>2,239.4</b>	<b>2,378.7</b>	<b>2,244.6</b>

\* Excludes recoverable expenditure

## Fund Account (inflows) and outflows

The following table shows the income and expenditure of the Pension Fund over the last five years together with an estimate for 2020/21.

Fund Account	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Budget
	£000	£000	£000	£000	£000	£000
Contributions: Employers	-81,156	-87,923	-112,820	-93,016	-84,158	-117,020
Employees	-17,292	-17,625	-17,795	-18,114	-18,962	-19,234
Transfers in	-1,131	-7,100	-6,733	-6,736	-12,575	-6,855
Bulk transfer values in	-	-94	-	-	-	-
Other income	-139	-151	-143	-132	-136	-140
Benefits payable	71,937	76,653	78,170	83,460	88,290	91,584
Payments to and on account of leavers	165	177	297	372	372	318
Transfers out	2,200	3,146	5,974	4,992	7,929	4,848
Bulk transfer values out	1,078	338	-	-	-	-
<b>Net (additions)/withdrawals from dealings with members</b>	<b>-24,338</b>	<b>-32,579</b>	<b>-53,050</b>	<b>-29,174</b>	<b>-19,240</b>	<b>-46,499</b>
Investment management expenses	6,136	6,698	5,783	6,492	7,797	7,066
Administration expenses	1,002	1,133	1,217	1,397	1,509	1,750
Oversight & Governance expenses	475	694	418	553	722	1,017
Investment income	-24,723	-27,256	-30,849	-27,681	-25,042	-25,000
Profit, loss and change in market value	48,019	-334,803	-74,344	-90,864	168,409	-56,717
<b>Net increase (-) / decrease in the Fund</b>	<b>6,571</b>	<b>-386,113</b>	<b>-150,825</b>	<b>-139,277</b>	<b>134,155</b>	<b>-118,383</b>



## Income

During 2018/19 two long standing admission bodies exited the Fund resulting in one-off cessation deficit payments totalling £13.4m. The 2019/20 contributions therefore fell compared to the previous year but not by a corresponding amount as contributions increased in line with membership growth expectations and pay increases.

The 2020/21 contribution forecast takes account of a number of scheduled bodies who have chosen to pay one-off secondary contributions of £38.8m to the Fund in relation to their 2021/22 and 2022/23 rates. As a result these bodies will benefit from a reduced secondary contribution payment which will be reflected in the apparent reduction in contribution income in 2021/22 and 2022/23.

It was anticipated that Transfer Values Received would remain

broadly constant between 2018/19 and 2019/20. However there was an increase in the number of high value transfer values. The 2020/21 forecast assumes that Transfer Values will reduce to more normal levels.

Investment income fell by £2.6m between 2018/19 and 2019/20. This was primarily due to the transition from directly held equities paying dividends to pooled funds which retain income that is reflected in the market value of the pooled fund instead.

Investment income for 2020/21 is forecast to remain broadly consistent with 2019/20 due to the uncertainties surrounding the impact of Covid-19

## Expenditure

Investment management expenses in 2019/20 increased by £1.3m in comparison to 2018/19. The increase arose as a result of

three key factors, the operational activities of the Brunel Pension Partnership (BPP), the change in the Strategic Asset Allocation of the Fund and a different fee structure for the BPP UK equities mandate compared to the previous investment mandate held by the Fund.

Payments to beneficiaries in respect of pensions have increased by £4.8m from £83.5m in 2018/19 to £88.3m in 2019/20. The 2020/21 forecast figure is based on current expectations for pensioner growth during the period.

Administration expenses increased by £0.11m during 2019/20 to £1.5m mainly due to an increase in IT costs arising from the cloud hosting of pension administration software. The 2020/21 forecast of administration expenses includes an additional £0.1m for staffing to facilitate increased resource for the Pension Administration team.

## Cash flow

For 2019/20 the inflow of cash to the Fund continued to exceed the outflow. Details of the net cash inflow to the Fund for the past 5 years and a forecast for the following year are shown below:

	2015/16 Actual £000	2016/17 Actual £000	2017/18 Actual £000	2018/19 Actual £000	2019/20 Actual £000	2020/21 Forecast £000
Net cash inflow	44,783	55,028	78,433	49,929	37,755	37,716

There are a number of factors that affect the size of the net cash inflow. These factors include changes in the levels of retirements and pensioner numbers, contribution levels, dividend income and transfers into and out of the scheme. During 2019/20 one-off exit credit payments of £1.2m were due to employers leaving the Pension Fund whilst 18/19 contained one-off exit payments of £13.447m from employers leaving the Pension Fund.

## Operational expenses

The following tables show budgeted and actual figures of the three constituent parts that make up the operating expenses of the Pension Fund.

	2016/17		2017/18		2018/19		2019/20		2020/21
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Administrative costs</b>									
Staff costs	769	586	807	656	832	742	917	766	960
Premises	49	66	52	65	52	74	70	51	70
IT	192	209	317	212	319	287	406	380	400
Supplies and services	220	182	205	206	256	220	240	258	260
Other central costs	59	47	60	61	61	66	60	54	60
Cost of democracy	-	-	-	-	-	-	-	-	-
Other	-	43	-	17	-	8	-	-	-
	<b>1,289</b>	<b>1,133</b>	<b>1,441</b>	<b>1,217</b>	<b>1,520</b>	<b>1,397</b>	<b>1,693</b>	<b>1,509</b>	<b>1,750</b>
<b>Oversight &amp; governance costs</b>									
Staff costs	181	189	193	175	200	169	210	165	230
Audit fees	25	24	38	20	31	18	19	25	30
Actuarial fees	213	326	214	196	210	207	300	347	400
Pension Committee/ Board	3	1	5	1	5	2	2	1	10
Performance monitoring service	39	23	39	30	37	83	19	80	117
Investment consultancy	21	20	21	21	22	24	30	24	30
Other professional fees	44	111	350	-25	653	50	980	80	200
	<b>526</b>	<b>694</b>	<b>860</b>	<b>418</b>	<b>1,158</b>	<b>553</b>	<b>1,560</b>	<b>722</b>	<b>1,017</b>

The increase in staffing budget in the Administration team between 2019/20 and 2020/21 is to facilitate increased resource for the Pension Administration team.

Actuarial fees within Oversight & Governance contain actuarial expenses of £124,000 (2018/19 £126,000) which arose as a result of employer requests and was therefore recharged back to them. Net actuarial fees for 2019/20 were £223,000 (2018/19 £81,000). Additional actuarial costs were incurred in 2019/20 in relation to the Fund undertaking the triennial valuation carried out by the Fund actuary.

	2016/17		2017/18		2018/19		2019/20		2020/21
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Investment management expenses</b>									
Management fees	4,913	4,953	4,562	4,586	6,500	5,342	5,800	6,731	6,346
Performance fees	775	377	578	432	-	544	-	568	-
Transaction costs	-	1,228	-	656	-	428	-	367	580
Custody fees	78	118	90	101	90	176	90	131	140
Tax & legal costs	-	22	-	8	-	2	-	-	-
	<b>5,766</b>	<b>6,698</b>	<b>5,230</b>	<b>5,783</b>	<b>6,590</b>	<b>6,492</b>	<b>5,890</b>	<b>7,797</b>	<b>7,066</b>

Investment 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.

Transaction costs cannot be forecast in advance and hence are not budgeted for.

### Analysis of pension contributions

The timeliness of employee and employer pension contributions, which should be paid to the Pension Fund no later than 19 days after the end of the month in which they were deducted from pay, is shown below.

Employee and Employer Contributions	Total	On Time		Late	
	£000	£000	%	£000	%
2015/16	97,000	96,600	99.60	400	0.40
2016/17	103,000	102,900	99.90	100	0.10
2017/18	128,000	127,950	99.95	50	0.05
2018/19	108,000	107,850	99.84	150	0.16
2019/20	100,913	100,671	99.76	242	0.24

In total 35 (21 2018/19) monthly payments were received late, of which 17 were received within one month, two were received within two months and sixteen, eleven of which were from two employers, paid within seven months. (2018/19, 15 received within one month one was received within two months and five, from the same employer, paid within seven months).

During 2019/20 the option to levy interest on overdue contributions was not exercised (2018/19 £0 was charged).

## Analysis of pension overpayments

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Pension overpayments b/fwd.	23.5	29.1	67.3	29.7	33.2
Pension overpayments in the current year	29.8	88.4	33.0	59.3	20.0
Overpayment recovered	(24.1)	(50.2)	(61.1)	(46.1)	(34.2)
Overpayments written off	(0.2)	-	(9.5)	(9.7)	(11.9)
Pension overpayments c/fwd.	29.0	67.3	29.7	33.2	7.1

Gloucestershire Pension Fund participates in the National Fraud Initiative (NFI) which is a biennial data matching exercise administered by the Cabinet Office.

Pension data was submitted through the web portal in 2018 and data match reports produced matching:-

- Active pensioners with Department of Works and Pensions (DWP) deceased records, to identify cases where we might be continuing to pay someone who has died;

- Pensioners with payroll records for public sector bodies to identify cases where pensions should be abated; and

- Pensioners receiving an enhanced injury pension with individuals receiving relevant state benefits to identify cases where they have failed to declare relevant state benefits that may remove or reduce entitlement to the enhanced pension.

During the 2018 exercise Match reports were reviewed and additional information sought as

necessary. The reports identified 19 pensioners who had died where the Pensions Section had not been informed of their death and total overpayments amounted to £19,116. As at August 2020 £9,028 had been recovered. None of the cases identified were suspected of fraud.

# Investment Policy and Performance Report

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## Investment Powers and Duties

The powers and duties concerning the investment of Fund monies are set out in the Local Government Pension Scheme Management and Investment of Funds Regulations 2016 (as amended) which came into force on the 1st November 2016. The 2016 Regulations require the County Council, as Administering Authority for the Gloucestershire LGPS Fund, to invest any monies that are not immediately required to pay pensions and other benefits.

The previous Regulations allowed a wide range of investments, but set certain limits; the 2016 Regulations allows the authority to invest, without any restriction as to quantity, in any investment made in accordance with a scheme under section 11(1) of the Trustee Investments Act 1961. However the authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority.

The Regulations require the County Council to have a suitably

diversified portfolio of investments and must obtain the advice of properly qualified persons on investment matters. In carrying out these duties, the County Council owes a fiduciary duty to the contributors and beneficiaries of the Fund, as well as to the council taxpayers who ultimately 'guarantee' the financing of future liabilities.

## Investment Strategy

The Pension Committee is responsible for the Fund's investment policy. During 2019/20 the Committee comprised of six County Councillors, one District representative and a union nominated representative for staff / deferred / pensioner members. Further details on the Pension Committee regarding meetings held and voting arrangements can be found in the Governance Compliance Statement report on pages 54 to 57.

The Committee determines the overall investment strategy for the Fund after receiving advice from its officers, independent advisor and appropriate external investment consultants. The investment strategy developed by the Pension Committee is detailed in the Investment Strategy Statement (ISS) which superseded the Statement of Investment Principles (SIP) from 1st April 2017 and can be found on pages 136 to 143.

## Investment Management

The objective of LGPS pension fund investment policy is to minimise the level of the contributions to be paid into the Fund by employer bodies to ensure its solvency. In place at the year-end were nine investment managers, Brunel Pension Partnership, Legal & General Investment Management, Aberdeen Standard Investments, BlackRock, Western Asset Management, Federated Hermes Investment Management, CBRE, Golub Capital Partners International and Arcmont Asset Management who each manage portfolios within specific asset categories of the Fund's investments. In addition there was a relatively small amount invested in two private equity/venture capital funds.

## The Fund's Investment Managers are:

## Mandate

**Bid Market Value  
31st March 2020  
£m**

### Investments managed by the Brunel Pension Partnership regional asset pool

Brunel Pension Partnership	UK Equities	292.7
	Emerging Markets Equities	120.7
	Global High Alpha Equities	381.8
	Private Equity and Infrastructure Portfolio	12.7
Legal & General Investment Management	Passive Equities	477.2

### Investments managed outside of the Brunel Pension Partnership regional asset pool

BlackRock	Global Equities Including Emerging Markets	63.3
Aberdeen Standard Investments	Global Multi Asset Absolute Return Fund	79.7
Western Asset Management	Global Fixed Interest	347.7
	Global Multi Strategy Fixed Interest	173.8
Arcmont (formerly BlueBay) Asset Management LLP	UK Private Debt	30.8
Golub Capital Partners International	Overseas Private Debt	33.4
CBRE	Global Property	62.4
Federated Hermes Investment Management	UK Property Unit Trusts	142.8
Technology Venture Partners	Private Equity	3.7
YFM Group	Private Equity	0.8

Each manager is required to have regard for the Fund's Investment Strategy Statement and the legislative environment in which the Fund operates.

State Street Global Services became the Fund's appointed global custodian in November 2017.

## Fund Performance

Primarily, State Street Global Services and additionally, PIRC Local Authority Pension Performance Analytics, measure the Fund's investment performance. These companies provide independent performance measuring services for the Fund.

To 31st March 2020 the Fund realised the following returns:

	<b>Fund % p.a.</b>	<b>Strategic Benchmark % p.a.</b>
1 year	-6.2	-4.7
3 years	1.1	1.6
5 years	4.2	5.1
10 years	6.8	7.2

For general market background information, the following shows rates of return achieved on representative market indices over the 12 months to 31st March 2020:

- Another year of global political uncertainty together with the unprecedented effects of Covid-19.
- The year saw the fastest ever decline in equity markets, albeit from close to record high levels, new lows in oil prices, much of the credit market becoming barely liquid and property and many alternatives difficult to value.
- Equities fared worst – funds with higher exposures to more defensive assets will have performed relatively well.

- Private equity performed strongly in the last year delivering returns of 12.1% to March 2020.
- Bond returns returned an average universe performance of 1.7% for the year
- UK equity returns were the poorest of the major asset classes with an average universe performance of -18.2% for the year.

## Local Authority Universe

For 2019/20, 61 local authority funds were included directly in the PIRC Local Authority Pension Performance Analytics Universe. The average investment return achieved by Local Authority Pension Funds within the

Universe for 2019/20 was -4.8% (including property assets), placing Gloucestershire 45th out of the 61 funds.

The average total fund returns for the average local authority funds are shown on the right:

## Comparison of investment performance with other LGPS Funds

The Fund's investment performance is compared on an annual basis against other local authority pension funds

Average returns over:	Local Authority Universe %
1 year	-4.8
3 years	1.9
5 years	5.2
10 years	6.9

subscribing to PIRC Local Authority Pension Performance based on the Analytics Universe of 61 local authority pension funds. The Fund performance was ranked

45th out of 61 over one year and 46th out of 61 over the three year period. Ten year performance placed the Gloucestershire Fund 27th.

## Investment Performance

31st March 2020 investment returns over 1 year, 3 years, 5 years and since inception as derived from the various asset categories in the Gloucestershire Fund compared to the specific performance benchmark used for each asset class:

	Since Inception		1 year		3 years		5 years	
	Fund %	B/mark %	Fund %	B/mark %	Fund %	B/mark %	Fund %	B/mark %
<b>Asset Pool Managed Investments</b>								
<b>Equities</b>								
UK Active*	-11.4	-10.2	-20.0	-18.5	n/a	n/a	n/a	n/a
Passive Low Carbon*	-2.1	-2.0	-4.5	-4.5	n/a	n/a	n/a	n/a
Passive Smart Beta*	-5.3	-5.0	-9.9	-9.7	n/a	n/a	n/a	n/a
Passive Developed*	-2.7	-5.0	-5.4	-5.4	n/a	n/a	n/a	n/a
Passive Developed Hedged*	-6.6	-6.6	-10.6	-10.6	n/a	n/a	n/a	n/a
Global High Alpha*	-10.5	-14.4	n/a	n/a	n/a	n/a	n/a	n/a
Emerging Markets*	-17.4	-15.2	n/a	n/a	n/a	n/a	n/a	n/a
<b>Alternatives</b>								
Private Markets Infrastructure*	0.3	1.1	11.0	1.5	n/a	n/a	n/a	n/a
Private Markets Private Equity*	31.9	-3.9	21.1	-6.2	n/a	n/a	n/a	n/a
<b>Non-asset Pool Managed Investments</b>								
<b>Equities</b>								
Global	8.8	8.3	-7.8	-6.7	2.2	1.8	6.5	6.6
<b>Fixed Interest</b>								
Global	5.8	6.3	0.8	1.7	1.3	1.8	3.6	4.1
Global Multi Strategy	2.4	2.6	-5.5	2.8	-1.1	2.7	0.9	2.6
<b>Property</b>								
UK Unit Trust	6.4	4.8	1.1	0.1	6.3	5.3	7.6	6.3
Global	8.3	7.4	2.3	0.3	5.8	5.3	6.3	6.4
<b>Alternatives</b>								
UK Private Debt*	7.2	5.8	7.1	5.9	n/a	n/a	n/a	n/a
Overseas Private Debt*	10.8	5.8	14.4	5.9	n/a	n/a	n/a	n/a
Global Absolute Return	2.7	5.7	1.5	6.0	0.9	5.9	-0.0	5.8

\* Performance history not available as assets not held for the entire duration of the period

The 10 year total fund performance returns are shown on page 20. Performance returns by fund manager are shown opposite.



Net investment performance by fund manager against benchmarks as at 31st March 2020, annualised for 1, 3 and 5 years and since inception:

Mandate		Benchmark	Since Inception		1 year		3 years		5 years	
			Portfolio %	B/mark %	Portfolio %	B/mark %	Portfolio %	B/mark %	Portfolio %	B/mark %
<b>Asset Pool Managed Investments</b>										
Brunel	UK Active Equity*	FTSE All Share	-11.4	-10.2	-20.0	-18.5	n/a	n/a	n/a	n/a
Brunel	Global High Alpha Equity*	MSCI World Total Return Gross	-10.5	-14.4	n/a	n/a	n/a	n/a	n/a	n/a
Brunel	Emerging Markets Equity*	MSCI Emerging Markets Total Return Gross	-17.4	-15.2	n/a	n/a	n/a	n/a	n/a	n/a
Brunel	Private Markets Infrastructure*	Consumer Price Index	0.3	1.1	11.0	1.5	n/a	n/a	n/a	n/a
Brunel	Private Markets Private Equity*	MSCI All Country World Index	31.9	-3.9	21.1	-6.2	n/a	n/a	n/a	n/a
Brunel	Passive Low Carbon*	MSCI World Low Carbon	-2.1	-2.0	-4.5	-4.5	n/a	n/a	n/a	n/a
Brunel	Passive Smart Beta*	SciBeta Multifactor Composite	-5.3	-5.0	-9.9	-9.7	n/a	n/a	n/a	n/a
Brunel	Passive Developed Equity*	FTSE World Developed	-2.7	-2.7	-5.4	-5.4	n/a	n/a	n/a	n/a
Brunel	Passive Developed Equity Hedged*	FTSE World Developed Hedged	-6.6	-6.6	-10.6	-10.6	n/a	n/a	n/a	n/a
<b>Non-asset Pool Managed Investments</b>										
Aberdeen Standard	Global Absolute Return	6M GBP LIBOR + 5%	2.7	5.7	1.5	6.0	0.9	5.9	-0.0	5.8
BlackRock	Global Equities	MSCI All Country World Index	8.8	8.3	-7.8	-6.7	2.2	1.8	6.5	6.6
Western Asset	Global Fixed Interest	ICE BoAML Sterling Non Gilts	5.8	6.3	0.8	1.7	1.3	1.8	3.6	4.1
Western Asset	Global Multi Strategy Fixed Interest	3M GBP LIBOR + 2%	2.4	2.6	-5.5	2.8	-1.1	2.7	0.9	2.6
Federated Hermes Investment	Property	MSCI UK PPF Balanced PUT	6.4	4.8	1.1	0.1	6.3	5.3	7.6	6.3
CBRE	Property	MSCI All Balanced Property Funds Index	8.3	7.4	2.3	0.3	5.8	5.3	6.3	6.4
Golub Capital Partners	Private Debt*	3M GBP LIBOR +5%	10.8	5.8	14.4	5.9	n/a	n/a	n/a	n/a
Arcmont	Private Debt*	3M GBP LIBOR +5%	7.2	5.8	7.1	5.9	n/a	n/a	n/a	n/a

\* Performance history not available as assets not held for the entire duration of the period

## Asset Allocation – Planned compared to actual

	Strategic asset allocation target 2019/20 %	Actual asset allocation as at 31st March 2019 %	Actual asset allocation as at 31st March 2020 %
UK Equity	13.0	15.4	13.0
Emerging Markets	4.0	6.0	5.4
Global Equity	19.0	20.1	19.8
Global Equity Including Emerging Markets	22.5	22.0	21.3
<b>Total Equity</b>	<b>58.5</b>	<b>63.5</b>	<b>59.5</b>
<b>Global Fixed Interest (including Index Linked Securities) &amp; Global Multi Strategy Fixed Interest</b>	<b>24.5</b>	<b>22.2</b>	<b>23.2</b>
<b>UK and Global Property</b>	<b>7.5</b>	<b>8.5</b>	<b>9.2</b>
<b>Multi Asset Global Absolute Return</b>	<b>4.0</b>	<b>3.3</b>	<b>3.6</b>
<b>Cash &amp; Venture Capital</b>	<b>0.0</b>	<b>0.6</b>	<b>1.0</b>
<b>Private Debt</b>	<b>3.5</b>	<b>1.8</b>	<b>2.9</b>
<b>Infrastructure and Private Equity</b>	<b>2.0</b>	<b>0.1</b>	<b>0.6</b>
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Significant changes during the year:

Following progress with pooling arrangements, the Strategic Asset Allocation allows for a range of allocations to the various Brunel PP investment portfolios, as agreed by the Committee. The following identifies the various allocation ranges of which management can work within in consultation with the Independent Advisor to the Fund.

Brunel Portfolio	New Agreed Allocation from 1st April 2020 %	Agreed Target Allocation Range from 1st April 2020 %
<b>Active Equities</b>		
UK Equities	12.0	10.0 to 14.0
Global High Alpha Equities	13.0	11.0 to 15.0
Emerging Market Equities	6.5	5.0 to 8.0
Sustainable Global Equities	2.0	1.0 to 3.0
<b>Passive Equities</b>		
Developed Equities	10.0	7.0 to 13.0
Low Carbon Equities	2.0	1.0 to 3.0
Smart Beta Equities	9.5	8.0 to 11.0
<b>TOTAL EQUITIES</b>	<b>55.0</b>	

continued...

<b>Brunel Portfolio</b>	<b>New Agreed Allocation from 1st April 2020 %</b>	<b>Agreed Target Allocation Range from 1st April 2020 %</b>
<b>Fixed Interest</b>		
UK Investment Grade	14.5	13.0 to 16.0
Multi Asset Credit	7.5	6.5 to 8.5
<b>TOTAL FIXED INTEREST</b>	<b>22.0</b>	
<b>Alternatives</b>		
Property	10.0	8.0 to 12.0
Private Debt	5.0	4.0 to 6.0
Infrastructure	5.0	4.0 to 6.0
Private Equity	3.0	2.0 to 4.0
<b>TOTAL ALTERNATIVES</b>	<b>23.0</b>	
<b>TOTAL ALL</b>	<b>100.0</b>	

As at 31st March 2020 the scheme assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The majority of the equities held by the scheme are in international blue chip entities as included in the FTSE and MSCI Indices. The aim is to hold a globally diversified portfolio of equities with a small allocation to higher risk markets, such as Emerging Markets, to maintain a wide range of diversification and to improve return opportunities.

## Annual Responsible Investment Update

Over time, the Brunel Pension Partnership will manage the investment of the Fund assets of the Gloucestershire Fund, in conjunction with nine other funds in the South West of England. As such, Brunel will own and maintain a Responsible Investment (RI) and Stewardship Policy on behalf of their clients, which will be implemented and the performance of asset managers will be monitored. Further details of the RI and Stewardship Policy can be found on the Brunel website <https://www.brunelpensionpartnership.org/responsible-investment/>.

[brunelpensionpartnership.org/responsible-investment/](https://www.brunelpensionpartnership.org/responsible-investment/).

During 2019/20, Brunel continued to develop policies to guide its appointed investment managers with respect to voting, engagement and RI more generally. Brunel's policy is informed by its investment beliefs and its clients' policies and priorities together with regulations and statutory guidance and are aligned with best practice. Brunel's engagement objectives are linked to seven priority themes:

1. Climate Change
2. UK Policy Framework
3. Diversity & Inclusion
4. Human Capital
5. Cost and Tax Transparency
6. Cyber Security
7. Supply Chain Management

## Federated Hermes

Federated Hermes (formerly Hermes EOS), who are the Brunel Pension Partnership's engagement partner, are a leading stewardship provider with a focus on achieving

positive change. Their dedicated team of engagement and voting specialists enable pension funds such as Gloucestershire and the wider Brunel pool to achieve their fiduciary responsibilities and be more active owners of companies.

Federated Hermes focuses on greater sustainability in outcomes for society, in the interests of ultimate beneficiaries, through improved long-term returns on investment.

The following sections summarise the work of Brunel, together with their engagement provider, Federated Hermes, across areas including voting, engagement and environmental and carbon analysis during 2019/20.

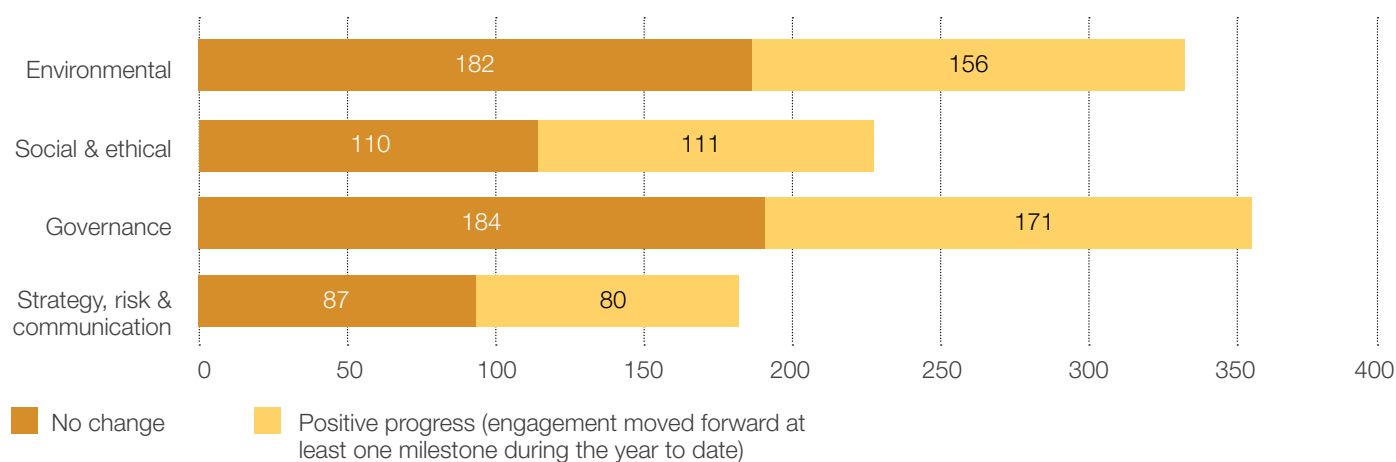
## Engagement

Brunel Pension Partnership believes it is essential that they take an active and responsible approach to identifying risks and opportunities within investment portfolios. As such, Brunel set engagement objectives linked to the priority themes highlighted above and provide all of their clients with quarterly and annual

updates relating to the work of both Brunel and their appointed asset managers activities.

During 2019/20, Brunel's proxy voting and engagement provider, Federated Hermes, engaged with 867 Brunel held companies (2018/19 746) covering 1,081 (2018/19 2,084) identified objectives and issues (see chart below). Progress of at least one milestone was moved forward for 52% of objectives during the year (2018/19 44%).

## Engagement undertaken on behalf of Brunel by Federated Hermes



Please note this does not include engagement undertaken directly by Brunel.

Source: Brunel Pension Partnership 2020 Responsible Investment and Stewardship Outcomes for the year ending 31st December 2019

## Voting

Brunel Pension Partnership, on behalf of its clients, have developed a single voting policy for all assets managed by Brunel in the various mandates, articulated in their Stewardship Policy which is available on the company website. The implementation of Brunel's voting policy which is published in their Stewardship Policy is supported by Federated Hermes. Voting decisions are informed by investment consideration, consultation with portfolio managers, clients, other institutional investors and Brunel's engagement with companies. Brunel maintains quarterly voting records which are publically available.

With respect to Gloucestershire's holdings, during 2019/20 Federated Hermes made voting recommendations at 299 meetings (18/19 34) covering 4,017 resolutions (18/19 529). At 125 (18/19 17) of those meetings Federated Hermes recommended opposing one or more resolutions. The majority of resolutions where Federated Hermes recommended voting against management related to Board Structure and Remuneration.

# Scheme Administration

## Administration Arrangements

The Pensions Administration team is responsible for the scheme member and pensioner administration of the Fund. Members of the Pensions Finance team provide support to the Pension Committee including the production of management information and reports. In addition employers are responsible for ensuring that member and employer contributions are deducted at the correct rate and member data is sent to the Pensions Administration team.

To enable assurances to be obtained as to the effective and efficient operation of the Fund's investments, performance is benchmarked on an annual basis against other local authority pension funds subscribing to the PIRC Local Authority Pension Performance Analytics' Universe of 61 local authority pension funds. Internal controls are also in place to support the reliability and integrity of financial information and the Fund is subject to internal and external audit.

Staff contact details can be found on page 12 together with the Fund's web addresses which contain detailed documents and information on the following areas:

- The Pension Fund's policy statements.
- The actuary's triennial valuation report at March 2007, March 2010, March 2013, March 2016 and March 2019.
- Annual reports from 2009/10 to the present.

- Independent Auditor's Consistency Report
- Business Plan
- Funding Strategy Statements
- Investment Strategy Statement
- Pension Board Report
- A range of guides for scheme members in "booklet" form covering different topics.
- Online copies of the various forms members may wish to use in connection with their scheme membership.
- Updates on latest developments affecting the pension scheme.
- Information on the Annual Benefit Statements.
- Administration Staff contact details
- Employer pages, providing an Employer's Administration Guide and associated forms/ documentation together with other relevant information.

The Pension Fund's web pages also contain links to the National LGPS Member website and the Brunel Pension Partnership website, the Fund's pool asset manager who will eventually manage all the Fund's investments although responsibility for asset allocation will remain with the Pension Committee.

## Value for money statement

The Gloucestershire Pension Fund strives to deliver value for money services to all of the members and employers within the Fund. In order to demonstrate the efficiency and effectiveness of the services provided we collect data on key

service related performance indicators and cost data which is used for comparisons over time and comparisons with other Funds where possible.

The key data to confirm value for money is set out on the following pages, but in summary this data confirms that the Gloucestershire Fund continues to deliver a good quality, value for money service which meets the expectations of members of the fund.

From the performance data on pages 27 to 28 it can be seen that during 2019/20, across the majority of indicators, performance has improved slightly between 2018/19 and 2019/20, with performance against four of the six indicators being on or above target in 2019/20, whilst all of the Annual Benefits Statements were issued to members by the statutory deadline. Although the performance against the remaining two indicators has fallen, it should be noted that the number of items processed have increased significantly in relation to four of the five processing areas.

Whilst some areas remain lower than the performance levels achieved under the pre April 2014 scheme, it is evident that the investment in additional staff has had a positive impact on administration; allowing management to clearly target the complex areas of the scheme and ensure a high quality service continues to be delivered to members. The 2020/21 budget allows for the recruitment of two additional pension administration officers which the Fund hopes will support the improvement of service delivery and performance indicators further.

## > Summary of activity

### Key Tasks Performance Information

The Pension Fund has a number of local performance targets which are included within the Pension Administration Strategy report, and are detailed in the tables below. These tables show the levels of achievement for the last five years for the key tasks delivered by the Pension Fund.

	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Pension contributions paid on or before the due date	99.60	99.90	99.95	99.84	99.76
Employers providing the Pension Fund with a copy of their discretions policy document (184 out of 204)	78.5	81.2	79.7	81.0	90.2
Provision of named pensions contacts for the employer	100	100	100	100	100

Activity	Target	2015/16	2016/17	2017/18	2018/19	2019/20
Annual Benefit Statements sent by statutory deadline:		31/08/16	31/08/17	31/08/18	31/08/19	31/08/20
	100%	100%*	100%*	100%*	100%*	100%*
Provide retirement estimates within 15 working days						
Total completed		693	669	571	651	739
Completed on time		228	442	485	587	724
Achievement	90%	32.9%	66.1%	84.9%	90.2%	98.0%
Pay retirement grants within 15 working days						
Total completed		650	807	768	858	983
Completed on time		151	285	575	592	603
Achievement	90%	23.2%	35.3%	74.9%	69%	61.3%
Pay death grants within 8 working days						
Total completed		55	59	61	79	76
Completed on time		6	32	45	65	51
Achievement	90%	10.9%	54.2%	73.8%	82%	67.1%

\* Where the year-end return has been received from the employer and a definitive match made to the Pensions Administration records

Activity	Target	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Pay refunds within 15 working days</b>						
Total completed		n/a	290	448	620	649
Completed on time		n/a	203	429	609	641
Achievement	90%	n/a	70%	95.8%	98.2%	98.8%
<b>Pay transfer values within 15 working days</b>						
Total completed		n/a	71	132	147	194
Completed on time		n/a	55	122	144	192
Achievement	90%	n/a	77.5%	92.4%	98%	99.0%

## Results from employer satisfaction survey

The Fund also carries out an annual employer satisfaction survey to measure the level of benefit/improved understanding employers derive from attending the employers' forums and when contacting the Pensions section.

### % of employers completing the survey who agreed with the following statements:

	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
The forums had raised their understanding of current pension issues	100	100	100	100	*
Employers who felt that what they had learned at the Forum and from the Pensions office would help them in their role as a pension fund employer	89	100	100	100	*
Where I have contacted the Pensions office regarding a pension related issue, I am satisfied with the assistance given in relation to the query raised	93	100	100	100	*

\* Due to Covid-19 no employer's forum took place.

## Complaints received

Type of complaint	2015/16	2016/17	2017/18	2018/19	2019/20
System error	-	-	-	-	-
Staff error	-	-	-	2	1
Staff attitude	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>1</b>
<b>Total as % of workload</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>



## > Financial Indicators

### Unit Costs per Member

	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Investment Management Expenses</b>					
Total Costs £000	6,136	6,698	5,783	6,492	7,797
Total Membership Numbers	55,891	58,465	59,768	60,134	60,417
Cost per member £	<b>109.78</b>	<b>114.56</b>	<b>96.75</b>	<b>107.96</b>	<b>129.05</b>
<b>Administration Expenses</b>					
Total Costs £000	1,002	1,133	1,217	1,397	1,509
Total Membership Numbers	55,891	58,465	59,768	60,134	60,417
Cost per member £	<b>17.93</b>	<b>19.38</b>	<b>20.36</b>	<b>23.23</b>	<b>24.98</b>
<b>Oversight and Governance</b>					
Total Costs £000	475	694	418	553	722
Total Membership Numbers	55,891	58,465	59,768	60,134	60,417
Cost per member £	<b>8.50</b>	<b>11.87</b>	<b>6.99</b>	<b>9.20</b>	<b>11.95</b>
<b>Total cost per member £</b>	<b>136.21</b>	<b>145.81</b>	<b>124.10</b>	<b>140.39</b>	<b>165.98</b>

The management fees disclosed above include investment management fees directly incurred by the Fund i.e. including those charged on pooled fund investments which tend to be deducted from the market value of the investments rather than invoiced to the Fund. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

### Benchmarking

The Pension Fund submits data (SF3 submission) on an annual basis to the Ministry of Housing, Communities & Local Government (MHCLG). This information provides a benchmark

on the administration and fund management of the Local Government Pension Scheme and is also used in compiling the National Accounts and to show the role of pension funds in the economy. The SF3 submission is subjected to a strict validation by MHCLG and any significant variances are investigated.

Please find detailed opposite the results of the benchmarking obtained from that submission, comparing the average cost per scheme member of the Gloucestershire Fund to the average cost per scheme member of all funds in England and Wales.

The results show that the average cost per scheme member of the Gloucestershire Fund has been consistently lower than the average of all funds in England and Wales.

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
<b>Administration costs per scheme member</b>					
Gloucestershire County Council	22.77	26.61	32.28	27.94	32.92
All Authorities	25.19	29.80	30.24	29.80	32.68
<b>Fund management costs per scheme member</b>					
Gloucestershire County Council	118.46	121.33	127.77	107.80	117.08
All Authorities	144.65	148.49	155.06	175.44	189.59
<b>Total Administration and Fund management costs per scheme member</b>					
Gloucestershire County Council	141.23	147.94	160.05	135.74	150.00
All Authorities	169.84	178.29	185.30	205.24	222.27

## Staffing Indicators

The table below shows the number of staff over the last five years in the Pensions Administration Team working exclusively on local government pension scheme benefits.

	2015/16	2016/17	2017/18	2018/19	2019/20
Number of full time equivalent Pension Fund staff	10.8	11.8	14.9	14.6	<b>14.9</b>
Total fund membership	55,891	58,465	59,768	60,134	<b>60,417</b>
Number of fund members to one member of administration staff	5,175	4,954	4,011	4,119	<b>4,055</b>

## Other activities undertaken in 2019/20

In addition to the routine tasks detailed on pages 27 and 28, a number of significant one-off projects were delivered by the administration section of the Fund, as summarised below.

### Formal Pension Fund Valuation at 31st March 2019

The LGPS Regulations require that the Fund is independently valued every 3 years, with a formal valuation being required of the Fund at 31st March 2019. The

Gloucestershire Pensions staff completed this major exercise accurately and efficiently and were able to provide the fund actuary with all required information within the agreed timescales.

### Migration of computerised Pension Administration system to a “Hosted” service

Following the award in 2018/2019 of a contract with the Pensions Administration software supplier to provide the system in a “hosted” environment provided by the system supplier, the system was successfully migrated and went

live in October 2019. This has provided substantially improved system support and disaster recovery resilience.

## > Other information

### Membership Summary

	2015/16	% diff	2016/17	% diff	2017/18	% diff	2018/19	% diff	2019/20
Contributors	18,630	+1.91	18,986	-0.82	18,830	+0.74	18,969	+0.80	<b>19,121</b>
Pensioners	14,207	+3.47	14,700	+4.44	15,353	+4.59	16,058	+3.42	<b>16,607</b>
Deferred pensioners	18,149	+3.25	18,738	+3.87	19,463	+4.90	20,417	-1.19	<b>20,173</b>
	50,986	+2.82	52,424	+2.33	53,646	+3.35	55,444	+0.82	<b>55,901</b>
Undecided/ unprocessed leavers	4,905	+23.16	6,041	+1.34	6,122	-23.39	4,690	-3.71	<b>4,516</b>
	<b>55,891</b>	<b>+4.61</b>	<b>58,465</b>	<b>+2.23</b>	<b>59,768</b>	<b>+0.61</b>	<b>60,134</b>	<b>+0.47</b>	<b>60,417</b>

Deferred pensioners are former employees who have not transferred their pension rights and to whom benefits will be paid, from their eligible retirement date.

Undecided leavers are those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due.

Unprocessed leavers are those members which represent cases where we are aware that a member has left, but that case has not yet been processed. These cases (once processed) could end up becoming Undecided Leavers or Deferred's (depending on length of membership) or indeed could end up being aggregated with another record the member may hold, in which case the particular record itself would be deleted.

The following gives an age profile of fund members.

Gender	Category Age	Active	Deferred	Pensioner	Widow(er)/ Dependant
F	under 15	0	0	0	23
M	under 15	0	0	0	17
F	15 to 19	102	1	0	17
M	15 to 19	48	0	0	18
F	20 to 24	532	89	0	8
M	20 to 24	217	64	0	23
F	25 to 29	886	665	0	6
M	25 to 29	348	387	0	2
F	30 to 34	1,186	1,173	0	0
M	30 to 34	333	531	0	1
F	35 to 39	1,535	1,543	1	0
M	35 to 39	324	571	0	1
F	40 to 44	1,951	1,715	2	3
M	40 to 44	335	490	0	5
F	45 to 49	2,609	2,488	9	8
M	45 to 49	403	571	6	10
F	50 to 54	2,879	3,300	40	23
M	50 to 54	541	740	16	28
F	55 to 59	2,286	2,986	459	33
M	55 to 59	557	689	156	56
F	60 to 64	1,230	1,472	1,732	87
M	60 to 64	370	373	592	94
F	65 to 69	248	192	2,827	105
M	65 to 69	123	62	1,168	95
F	70 to 74	53	46	2,302	163
M	70 to 74	25	19	1,171	101
F	75 to 79	0	2	1,300	214
M	75 to 79	0	4	766	105
F	80 to 84	0	0	740	223
M	80 to 84	0	0	470	103
F	85 to 89	0	0	348	197
M	85 to 89	0	0	243	54
F	90 to 94	0	0	132	109
M	90 to 94	0	0	86	18
F	95 to 99	0	0	32	38
M	95 to 99	0	0	11	0
F	100 to 104	0	0	4	4
M	100 to 104	0	0	1	0
F	105 to 109	0	0	0	1
<b>Total Members</b>	<b>55,901</b>	<b>19,121</b>	<b>20,173</b>	<b>14,614</b>	<b>1,993</b>

## Analysis of new pensioners

Please find detailed below a breakdown of new pensioners split into the various types of retirement:

	2015/16	2016/17	2017/18	2018/19	2019/20
Normal retirement	156	196	195	205	186
Early retirement*	438	502	544	618	683
Ill-health retirement**	22	31	26	32	27
	<b>616</b>	<b>729</b>	<b>765</b>	<b>855</b>	<b>896</b>

\*Early retirements are made up of employees who, on being made redundant and over the age of 55, were entitled to their accrued pension rights plus those employees over 55 who elected to receive their pension benefits before their normal retirement age, incurring a reduction in their pension benefits to reflect early payment (there are some exclusions to this rule).

\*\*Ill-health retirements relate to those members of staff, and former members of staff with deferred benefits, deemed permanently incapable of continuing in the employment the member was engaged in due to medical reasons and not immediately capable of undertaking any gainful employment in the future.

## Employer Summary

Please find listed opposite a summary of the number of employers in the Fund as at 31st March 2020 analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but some outstanding liabilities) during the year.

	Active	Ceased	Total
Scheduled bodies	165	16	181
Admitted bodies	39	39	78
<b>Total</b>	<b>204</b>	<b>55</b>	<b>259</b>

## Employee Contributions

Employee contributions are prescribed by statute and are based on pay bands. The pay bands and rates applicable from April 2019 are detailed opposite:

Whilst these same rates will apply to the 2020/21 financial year, the pensionable pay banding levels have increased slightly. Employees can opt to pay 50% of the relevant contribution rate to accrue 50% of the normal pension.

Pensionable Pay	Employee Contribution Rate %
Up to £14,400	5.5
£14,401 to £22,500	5.8
£22,501 to £36,500	6.5
£36,501 to £46,200	6.8
£46,201 to £64,600	8.5
£64,601 to £91,500	9.9
£91,501 to £107,700	10.5
£107,701 to £161,500	11.4
More than £161,501	12.5

## Employer Contributions

Employer contributions are assessed every three years by the Scheme Actuary. The contributions are required to be sufficient to maintain the long-term solvency of the Fund.

The results of the most recent actuarial valuation of the Fund, as at 31st March 2019, were announced in March 2020 and set the employers' contribution rates payable in each of the three years commencing 1st April 2020. The next actuarial valuation is due as at 31st March 2022, which will prescribe the employer rates from 1st April 2023.

The table opposite summarises the whole fund Primary and Secondary Contribution rates at the 2019 valuation. Primary rates relate to future service liabilities whilst the secondary rate relates to past service deficit payments. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates calculated in accordance with the Regulations and the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance. The whole fund Primary and Secondary contributions calculated at the 2016 valuation of the Fund are shown for comparison.

	<b>Last Valuation 31st March 2016</b>		<b>This Valuation 31st March 2019</b>	
<b>Primary Rate (% of pay)</b>	19.6%		20.9%	
Secondary Rate (£)	2017/18	32,487,000	2020/21	30,652,000
	2018/19	36,638,000	2021/22	26,850,000
	2019/20	40,905,000	2022/23	24,353,000

Further information regarding the valuation and the scheme's funding position is included in the Actuarial Report on Fund on pages 46 to 47.

Details of benefits payable under the LGPS and how they are calculated are contained in a scheme booklet that is issued to new employees. A general guide to the benefits payable is contained on page 146 of this report. In accordance with the Pensions (Increase) Act 1971 pensions payable are increased in relation to the movement in the Consumer Price Index.

## Participating Employers and Contributions Receivable

A list of the Fund's participating and contributing employers is shown below. The Rates & Adjustment Certificate showing each individual employer's contribution rate, as agreed with the Scheme Actuary, for the period 1st April 2020 to 31st March 2023 may be found on pages 48 to 52.

<b>2019/20 Contributions</b>	<b>Employer Contributions</b>	<b>Employee Contributions</b>	<b>Total</b>
<b>Administering Authority</b>			
Gloucestershire County Council*	<b>37,791,411</b>	<b>8,695,026</b>	<b>46,486,437</b>
<b>Scheduled Bodies</b>			
Cheltenham Borough Council	1,217,491	451,333	1,668,824
Cotswold District Council	1,983,194	60,630	2,043,824
Forest of Dean District Council	77,319	30,907	108,226
Gloucester City Council	4,452,939	364,477	4,817,416
Stroud District Council	1,689,670	624,709	2,314,379
Tewkesbury Borough Council	3,055,280	375,727	3,431,007
Cotswolds Conservation Board	87,685	26,992	114,677
Cheltenham Borough Homes	898,813	356,379	1,255,192
Farmors Sport Centre Limited	5,030	792	5,822
Sir William Romney Leisure Limited	4,725	695	5,420
Police and Crime Commissioner for Gloucestershire	5,698,315	1,562,791	7,261,106
Lower Severn Drainage Board	141,412	24,689	166,101
Parish and Town Councils (pooled)	547,616	139,158	686,774
University of Gloucestershire	4,815,770	1,033,918	5,849,688
Cirencester College	593,103	121,760	714,863
Gloucestershire College	1,704,223	351,530	2,055,753
Hartpury University	1,766,066	492,674	2,258,740
<b>Academies</b>			
Abbey View CCT	20,600	4,695	25,295
All Saints	288,425	51,069	339,494
Balcarras School	316,897	68,202	385,099
Holmleigh Park High School (formerly Beaufort Academy)	319,853	54,983	374,836
Berkeley Primary	67,351	13,131	80,482
Berkeley UTC Academy	40,246	10,566	50,812

\* including schools

continued...

2019/20 Contributions	Employer Contributions	Employee Contributions	Total
<b>Academies (continued)</b>			
Bibury C of E Primary Academy	17,958	3,543	21,501
Bishops Cleeve Primary	168,374	38,170	206,544
Blockley Primary Academy	44,026	8,838	52,864
Bourton On The Water	90,987	19,688	110,675
Brockworth Primary	91,223	22,066	113,289
Cam Woodfield Junior Academy	43,002	9,096	52,098
Charlton Kings Infants School	89,061	19,403	108,464
Charlton Kings Junior School	76,613	14,157	90,770
Cheltenham Bournside School	364,627	72,024	436,651
Chesterton Primary Academy	97,147	21,944	119,091
Chipping Campden School	271,561	56,741	328,302
Chosen Hill School	254,005	50,035	304,040
Christ Church C of E	71,267	16,295	87,562
Churchdown School	318,369	61,142	379,511
Churchdown Village Infants	71,794	16,494	88,288
Cirencester Deer Park School	281,785	62,311	344,096
Cirencester Kingshill School	200,964	45,792	246,756
Clearwater Primary Academy	20,247	5,713	25,960
Cleeve School	286,278	60,460	346,738
Coaley C of E Primary Academy	13,201	3,130	16,331
Cotswold School	301,329	66,877	368,206
Crypt School	162,876	39,143	202,019
Dene Magna School	253,247	49,214	302,461
Denmark Road High School (formerly High School for Girls)	172,651	31,034	203,685
Diocese of Gloucester Academies Trust	44,852	21,420	66,272
Dursley Primary	107,833	21,880	129,713
Farmors Academy	167,632	34,950	202,582
Field Court C of E Infant School	122,636	26,773	149,409
Field Court C of E Junior School	75,429	14,776	90,205
Five Acres High School Academy	233,324	46,118	279,442
Forest High School	91,994	16,853	108,847
Forest View Primary	113,855	20,812	134,667
Gloucester Academy	212,712	43,044	255,756
Gotherington Primary School	54,217	7,582	61,799
Grange Primary Academy	110,066	21,900	131,966
Gretton Primary School	20,010	4,235	24,245
Hardwicke Primary School	182,985	22,533	205,518
Hartpury C of E Primary Academy	21,759	3,604	25,363
Henley Bank High School (Formerly Millbrook Academy)	135,427	30,095	165,522
Highnam C of E Primary School	44,911	10,358	55,269
Katherine Lady Berkeley School	324,471	63,840	388,311
Kemble Primary Academy	26,027	7,580	33,607
Lakefield Primary Academy	70,114	14,134	84,248
Longford Park Primary Academy	39,004	10,648	49,652
Longney C of E Primary Academy	31,308	5,403	36,711
Marling School	206,158	48,357	254,515
Milestone Academy	726,136	134,083	860,219
Minchinhampton Academy	59,908	14,506	74,414
Mitton Manor Primary Academy	51,016	9,926	60,942

continued...



2019/20 Contributions	Employer Contributions	Employee Contributions	Total
<b>Academies (continued)</b>			
Moat Primary Academy	72,844	14,887	87,731
Newent Com School	207,933	43,393	251,326
North Cerney C of E Primary Academy	17,926	3,208	21,134
Offas Mead Primary	44,768	8,229	52,997
Paternoster Academy	99,637	18,407	118,044
Pates School	262,335	63,518	325,853
Peak Academy	70,757	14,657	85,414
Primrose Hill Academy	61,186	10,478	71,664
Redmarley C of E School	16,842	3,205	20,047
Ribston Hall School	183,441	40,878	224,319
Robinswood Primary School	336,914	78,623	415,537
Rosary Catholic Primary School	58,317	11,209	69,526
Rowanfield Infant School	70,012	14,108	84,120
Rowanfield Junior School	123,749	27,144	150,893
Severnbanks Primary	83,460	15,422	98,882
Severn Vale School	285,696	58,940	344,636
Severn View Primary	45,834	7,892	53,726
Siddington C of E Primary Academy	27,583	6,051	33,634
Sir Thomas Rich's School	192,116	38,704	230,820
Sir William Romney's School	142,400	28,398	170,798
South Glos & Stroud Academy Trust	32,513	9,231	41,744
Springbank Primary	144,728	33,976	178,704
St James Primary Academy	110,206	18,949	129,155
St Davids Primary	72,757	16,802	89,559
St Dominics Catholic Primary School	21,023	3,516	24,539
St Johns C of E Primary	53,686	8,875	62,561
St Lawrence Academy	49,449	14,965	64,414
St Mary's Catholic Primary School	63,552	14,477	78,029
St Matthews C of E Primary Academy	41,535	7,540	49,075
St Peter's Catholic High School	417,236	82,965	500,201
Staunton and Corse C of E School	29,568	5,830	35,398
Stone with Woodford C of E Academy	27,345	4,449	31,794
Stroud High School	209,736	45,045	254,781
Tewkesbury School	321,180	66,392	387,572
The Dean Academy	254,908	43,546	298,454
The Ridge Academy	92,687	20,649	113,336
Thomas Keble School	204,422	41,822	246,244
Tredworth Infant and Nursery Academy	97,082	19,161	116,243
Whiteshill Primary Academy	23,648	4,644	28,292
Winchcombe School	144,544	26,882	171,426
Winchcombe Abbey	77,053	16,419	93,472
Wyedean School	302,048	51,127	353,175
	<b>42,023,055</b>	<b>8,735,140</b>	<b>50,758,195</b>

continued...

2019/20 Contributions	Employer Contributions	Employee Contributions	Total
<b>Admitted Bodies</b>			
Adoption West	98,812	27,395	126,207
AMEY (Highways)	1,383	333	1,716
APCOA	9,868	2,332	12,200
Aspire Sports and Cultural Trust	72,059	31,829	103,888
Aspens (Denmark Road)	8,751	1,561	10,312
Aspens Catering (Farmors)	13,903	2,546	16,449
Atkins	15,403	4,912	20,315
Barnardos FOD and Stroud	4,931	1,138	6,069
Barnardos Gloucester	29,805	7,304	37,109
Brandon Trust	22,105	6,014	28,119
Carers Glos. Parent Partnership	726	167	893
Caterlink (Gloucester Academy)	29,489	5,684	35,173
Cheltenham Trust	140,407	35,238	175,645
Civica UK Ltd	200,365	44,101	244,466
Civica UK Ltd - Glos City IT	10,945	1,697	12,642
Cotswold Archaeological Trust	161,160	41,224	202,384
Enterprise (Accord Operations Ltd)	150,238	46,806	197,044
Gardners Lane & Oakwood (Chelt. & Tewks)	114,509	34,485	148,994
Gloucester City Homes	371,579	112,738	484,317
Gloucestershire Airport	446,226	21,968	468,194
Gloucestershire Health & Care NHS Foundation	62,735	16,611	79,346
Gloucestershire Group Homes	106,266	13,570	119,836
Glos Rural Com Council	4,579	978	5,557
INTO University Partnerships	5,655	1,081	6,736
The Orders of St John Care Trust	112,751	14,835	127,586
Places for People	26,121	9,700	35,821
Prospects Youth Service	454,285	145,033	599,318
Publica (Cotswold)	869,376	356,845	1,226,221
Publica (Forest)	460,267	189,030	649,297
Publica (Forest) Revenue & Benefits	49,512	16,148	65,660
Ridge Crest Cleaning (Farmors)	3,611	752	4,363
Ringway Infrastructure Services	79,201	19,328	98,529
Skanska (GCC Street Lighting)	529	143	672
Sport & Leisure Management	106,895	27,519	134,414
Stroud Court Community Trust	68,791	18,494	87,285
Stroud Subscription Rooms	10,210	2,793	13,003
Tinies UK (Glos College)	38,853	9,216	48,069
Two Rivers Housing	208,386	91,107	299,493
UBICO LTD (Chelt BC)	372,714	100,957	473,671
UBICO LTD (Cots DC)	16,128	4,727	20,855
UBICO LTD (FODDC)	28,815	7,066	35,881
UBICO LTD (Tewks BC)	456,570	33,981	490,551
Wealdon Leisure (FODDC)	93,040	22,720	115,760
	<b>5,537,954</b>	<b>1,532,106</b>	<b>7,070,060</b>
Section 75 Debt (cessation of employer)	-1,194,500	-	<b>-1,194,500</b>
<b>Total contributions</b>	<b>84,157,920</b>	<b>18,962,272</b>	<b>**103,120,192</b>

\*\* includes ill health and early retirement contributions totalling £2.2m.

Some of the employers will include accruals for contributions due but not received as at 31st March 2020.

## Summary of Freedom of Information Requests received during 2019/20

Subject	Number of Requests
Alternative investments	12
Subject access request	2
Voting records	2
Investments in fossil fuels	2
Currency transactions	1
Holdings in Capital Group	1
Assets held	1
	<b>21</b>

### The Fund's Internal Disputes Resolution Procedure (I.D.R.P.)

Although the majority of problems relating to members benefits are normally the result of misunderstandings or incorrect information and can be dealt with informally, the LGPS Regulations provide a formal complaint procedure known as the Internal Dispute Resolution Procedure. This formal process consists of two stages, as detailed below, although many of the complaints are resolved during the first stage.

#### Stage 1

◦ In the first instance you should write to the person nominated by the body who made the decision about which you wish to appeal. You must do this within six months of the date of the notification of the decision or the act or omission about which you are complaining (or such longer period as the nominated person considers reasonable). This is a formal review of the initial decision or act or omission and is an opportunity for the matter to be reconsidered. The nominated person will consider your complaint and notify you of his or her decision.

#### Stage 2

◦ If you are dissatisfied with that person's decision, (or their failure to make a decision) you may apply to the Fund's administering authority to have it reconsidered.

The Pensions Section can tell you who your employer's nominated person is and supply you with a more detailed leaflet on the Internal Disputes Resolution Procedure and relevant time limits together with a form to fill in or you can ask your employer.

### The Pensions Advisory Service (TPAS)

TPAS is available at any time to assist members and beneficiaries of the scheme in connection with any pension query they may have or any difficulty which they cannot resolve with the scheme administrator. Information can be found on the TPAS website at [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk) or they can be contacted on 0800 011 3797.

### Pensions Ombudsman

In cases where a complaint or dispute has not been satisfactorily resolved through the Internal

Disputes Resolution Procedure, or with the help of TPAS, an application can be made to the Pensions Ombudsman within three years of the event that gave rise to the complaint or dispute or, if later, within three years of when the individual first knew about it (or ought to have known about it). There is discretion in certain instances for the time limit to be extended.

The Pensions Ombudsman's website can be found at [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk) or they can be contacted on 0800 917 4487.

More detailed information can be found on the pages of the Pension Section's website by using the following link [www.gloucestershire.gov.uk/pensions](http://www.gloucestershire.gov.uk/pensions). Alternatively, you can contact the Pensions Section by telephoning (01452) 328888.

Details of scheme member appeals during 2019/2020 are as follows:

There was one Stage 1 IDR appeal against the Fund during 2019/2020. The independent appointed person upheld only part of the member's complaint.

# Pensions Administration Strategy

## Introduction & Purpose

It is recognised by the Secretary of State that for the administration of the Local Government Pension Scheme (LGPS) to be improved and costs reduced, Employers and Administering Authorities must co-operate closely and provide sufficient resource to ensure that their statutory obligations are met. The purpose of this Administration Strategy is therefore to recognise those responsibilities and to set out the time scales within which tasks should be completed. This will subsequently improve the flow of information between Employers and Gloucestershire Pension Fund (as Administering Authority), ensuring that those obligations are met, and ultimately that costs are kept to a minimum and that scheme members receive accurate and timely payment/ notification of their entitlements. The Administering Authority has assigned responsibility for the management and administration of the Gloucestershire Pension Fund to the Pension Committee.

## 1. The Regulations

**1.1** The Pension Administration Strategy is concerned with ensuring that Gloucestershire Pension Fund runs smoothly for its member's employer organisations and Gloucestershire Pension Fund.

**1.2** The Pension Administration Strategy is made in accordance with Regulation 59 of the Local Government Pension Scheme Regulations 2013 which states, amongst other things that:

**59.(1)** An administering authority may prepare a written statement of the authority's policies in

relation to such of the matters mentioned in paragraph (2) as it considers appropriate ('its pension administration strategy') and, where it does so, paragraphs (3) to (7) apply.

**(2)** The matters are:

**(a)** procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ('its Scheme employers');

**(b)** the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by:

i) the setting of performance targets

ii) the making of agreements about levels of performance and associated matters, or

iii) such other means as the administering authority considers appropriate

**(c)** procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

**(d)** procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;

**(e)** the circumstances in which the administering authority

may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

**(f)** the publication by the administering authority of annual reports dealing with:

(i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and

(ii) such other matters arising from its pension administration strategy as it considers appropriate; and

**(g)** such other matters as appear to the administering authority, after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

**1.3** The Pension Administration Strategy is published to Gloucestershire Pension Fund's Scheme employers and to the Secretary of State.

## 2. The Strategy

**2.1 Procedures for liaison and communication with Scheme employers**

**2.1.1** The employer will nominate a person to act as the 'employer

representative' and Gloucestershire Pension Fund's primary contact. The employer will notify Gloucestershire Pension Fund who that person is and ensure that changes of nominated person are notified to Gloucestershire Pension Fund immediately.

**2.1.2** Gloucestershire Pension Fund employs a multi-channel approach to liaison and communication with Scheme employers to ensure that employer needs are constantly and consistently met.

**2.1.3** Channels include:

- The 'Gloucestershire Pension Fund Employers Website', that gives access to:
  - information about Gloucestershire Pension Fund and the Local Government Pension Scheme
  - administration forms to download, print and use as needed
  - contact information for key Gloucestershire Pension Fund representatives who can inform and liaise with employers on the scheme and its application to individual cases
- Gloucestershire Pension Fund issues information by e-mail to the nominated contact for pensions at each organisation.
- Employer representatives can distribute pension information as appropriate to relevant staff within their organisation with a view to ensuring the smooth operation of the scheme within their organisation. The employer representative should always be

mindful of the confidentiality of some correspondence.

- Employer update seminars are held twice yearly (usually during January and June) covering scheme development issues and providing the opportunity for Employers to field any questions/queries.

## **2.2 Levels of performance**

**2.2.1** Gloucestershire Pension Fund and Scheme employers must have regard to the current version of the Pension Administration Strategy when carrying out their functions.

### **Levels of performance for Scheme employers and the administering authority**

**2.2.2** The employer must supply notifications (or approved alternatives) to Gloucestershire Pension Fund as follows:

- i. New starters (FORM: Employer pension starter notification): within 5 weeks of the employee joining.
- ii. Change in member's details (FORM: LGPS con-change): within 5 weeks of the event.
- iii. Early leavers (FORM: leaver1): within 5 weeks of the employee leaving.
- iv. Retirement Notifications (FORM: leaver1) and all other required documents must be received by Gloucestershire Pension Fund on or before 5 working days after the last day of employment.
- v. Death in active membership (FORM: leaver1): within 5 working days of the death of the member.

**2.2.3** Great care must be taken to avoid breaking The Occupational Pension Schemes (Disclosure of Information) Regulations 2013. For example, where a retirement takes place before normal pension age, leaver1 form must be received by Gloucestershire Pension Fund no later than one month after the date of retirement. Where a retirement takes place on or after normal pension age, Gloucestershire Pension Fund must receive leaver1 form no later than 10 working days after the date of retirement. The above timeframes within 2.2.2 are therefore to allow us to ensure compliance with the Disclosure Regulations in relation to all scheme member matters.

**2.2.4** Each employer in the fund will provide Gloucestershire Pension Fund with a monthly statement reconciling to the total contributions paid. This statement must be received by the Pension Fund before the payment of the contribution is made. The format of this statement is stipulated by Gloucestershire Pension Fund and contains information as detailed in the LGPS Regulations 2013. It also provides assistance to the employer by validating the calculations. A separate spreadsheet is available for employees utilising the 50/50 scheme and both can be obtained from the 'Gloucestershire Pension Fund Employers Web Site'. The deadline for receipt of these statements is no later than the 10th day of the month following the month in which contributions have been deducted. Where the 10th falls on a weekend or bank holiday, the due date becomes the last working day prior to the 10th.



**2.2.5** Employers will provide Gloucestershire Pension Fund with a year-end data return as at 31st March each year in an approved format no later than \*31st May of that year. The return must be balanced by the employer against the employee and employer contribution payments made for that financial year.

\*Please note that in the year of the Triennial Valuation, this date may need to be brought forward. Any such change will be notified in advance to your nominated person.

**2.2.6** The scheme employer is responsible for ensuring that employee and employer contributions are deducted at the correct rate and on the correct pensionable pay. This includes contributions due on leave of absence with reduced or no pay, maternity leave contributions, contributions relating to the 50/50 option and any other contributions due to the Gloucestershire Pension Fund or requested by the Gloucestershire Pension Fund.

**2.2.7** The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for publishing its policy in respect of the key discretions as required by the regulations to its employees.

**2.2.8** Gloucestershire Pension Fund is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests with the employer.

**2.2.9** Any over payment of benefits resulting from inaccurate information supplied by the employer shall be recovered from the employer.

Similarly, where Gloucestershire Pension Fund are required to revise their calculations due to incorrect notification of information by the employer, Gloucestershire Pension Fund reserves the right to pass on the administrative costs of processing that revision.

**2.2.10** In the event of Gloucestershire Pension Fund incurring costs or being fined by e.g. The Pensions Regulator, as a result of an employer's action or inaction (e.g. the failure to notify a retirement within the time limits described above), this charge will be passed on to the relevant employer.

**2.2.11** Under the Data Protection Act 1998, the employer will protect from improper disclosure any information about a member contained (where applicable) on any item sent from Gloucestershire Pension Fund. It will also only use information supplied or made available by Gloucestershire Pension Fund for the operation of the Local Government Pension Scheme.

### **Levels of performance for Gloucestershire Pension Fund**

**2.2.12** Gloucestershire Pension Fund will make available/ issue forms, newsletters, booklets and such other materials as are necessary for the administration of the Scheme.

**2.2.13** Gloucestershire Pension Fund will support employers in running the Local Government Pension Scheme by:

- i. providing information, interpretation and assistance on the scheme and its administration
- ii. distributing regular technical information

**2.2.14** Working co-operatively with employers, Gloucestershire Pension Fund aims to:

i. in relation to retirements; pay retirement grants within 10 working days of receipt of all the relevant required paperwork

ii. in relation to deaths in service; pay the death gratuity within 3 working days of receipt of all the relevant required paperwork

iii. provide employer requested estimates within 15 working days of request from employer

iv. send Annual Benefit Statements (ABS's) to scheme members in accordance with the specified timeframes within the LGPS Regulations following the relevant end of financial year, (subject to timely receipt of all required notifications under 2.2.2 and a balanced year-end return as stated in 2.2.5)

**2.2.15** Gloucestershire Pension Fund will produce benefit illustrations for members each year where the employer has submitted useable and accurate year-end financial data.

**2.2.16** Gloucestershire Pension Fund will supply any information to employers necessary to ensure the smooth running of the pension fund.

**2.2.17** Gloucestershire Pension Fund will work with employers to ensure that retirement is as smooth a process as possible for the member and employer.

**2.2.18** Under the Data Protection Act 1998, Gloucestershire Pension Fund will protect from improper disclosure any information held about a member. Information held will be used by Gloucestershire Pension Fund for the operation of the Local Government Pension Scheme.

**2.2.19** Gloucestershire Pension Fund is responsible for exercising the discretionary powers given to it by the regulations. Gloucestershire Pension Fund is also responsible



for publishing its policy to its members in respect of the key discretions as required by the regulations.

**2.2.20** Gloucestershire Pension Fund aims to provide a service to members that meet the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 2013.

**2.2.21** The Gloucestershire Pension Fund will contact all scheme employers throughout the financial year, depending on their year end reporting date, to establish requirements for an annual pension liability report produced by the Fund's actuary. These reports are required under the relevant International Accounting Standards (IAS) or Financial Reporting Standards (FRS) for inclusion in the employer's Annual Report & Accounts. For those wishing to commission such a report, the Gloucestershire Pension Fund will provide all the necessary documentation as provided by the Fund's actuary; the cost of obtaining this report will be recharged to the employer. Employers who fail to meet the advised deadlines of this exercise may incur a further actuarial charge due to the nature of the bulk discount fee obtained by the Fund.

**2.2.22** Where employers who are admitted bodies to the Fund are required to hold an indemnity bond, the Gloucestershire Pension Fund will request, from the Fund's actuary, revised bond valuations in accordance with the employer's Admission Agreement. Indemnity bonds are normally reviewed annually and the standard renewal date is 1st April. Where an employer is required to obtain a new or revised bond they will be given a minimum of 20 working days notice by the Gloucestershire Pension Fund. The actuary cost of obtaining the bond valuation will be recharged to the employer.

## **2.3 Payments by Scheme employers to Gloucestershire Pension Fund**

**2.3.1** Scheme employers will make all payments required under the Local Government Pension Scheme, and any related legislation, promptly to Gloucestershire Pension Fund and/or its Additional Voluntary Contribution providers (Prudential / Phoenix Life) as appropriate.

### **◦ Payment Dates**

Contributions can be paid over at any time but the latest date for cleared funds to be received is the 19th of the month immediately following the month in which deductions were made. For example contributions deducted in April must be received by Gloucestershire Pension Fund by 19th May at the latest. Where the 19th falls on a weekend or Bank Holiday, the due date becomes the last working day prior to the 19th.

Similarly, the employer will pay any Additional Voluntary Contributions to the relevant AVC Provider within the same timeframe.

### **◦ Late Payment**

Under the Pensions Act 1995, the Pensions Regulator may be notified if contributions are not received in accordance with the regulators code of practice, as described above.

### **◦ Monthly Contribution - Payment Method**

Apart from Additional Voluntary Contributions, all other Contributions should be paid to the Gloucestershire Pension Fund's bank account, by Direct Debit or BACS. The payment should match the in-month return(s) for the employer and a summary document should be sent if the payment covers two returns or more.

### **◦ Secondary(deficit) Contribution**

It is expected that secondary (deficit) contribution payments will be included on the monthly return when payment is made with the normal monthly contributions.

### **◦ Invoice - Payment Method**

Payments of invoices raised by the Pension Fund are due immediately upon receipt and must be made separate to any contribution payment that is due. The payment should be paid to the Gloucestershire Pension Fund's bank account, by BACS quoting invoice details.

### **◦ Remittance Advices**

Employers must submit a remittance advice with each payment to the Gloucestershire Pension Fund (email address: [peninv@gloucestershire.gov.uk](mailto:peninv@gloucestershire.gov.uk)). Employers who are paying monthly contributions must provide the statement as detailed in paragraph 2.2.4 above.

## **2.4 Additional costs incurred as a result of Scheme employer's level of performance**

**2.4.1** Gloucestershire Pension Fund will charge the scheme employer an administrative fee, for chasing any overdue/outstanding documentation or overdue payment, of £6 subject to VAT in relation to **each** item, each time it is chased.

Payments paid into Gloucestershire County Council's bank account rather than the Pension Fund's bank account will be subject to an administration fee of £6 subject to VAT. Any other additional charges imposed by the Bank to transfer these payments will also be passed on to the employer.

In addition, where additional costs have been incurred by Gloucestershire Pension Fund because of the Scheme employer's level of performance in carrying out its functions under the LGPS, the additional costs will be recovered from that Scheme employer. Costs subject to VAT will be based on a time and materials basis.

**2.4.2** Gloucestershire Pension Fund will give written notice to the Scheme employer stating -

- i. the reasons for the additional cost incurred;
- ii. that the Scheme employer should pay the additional costs attributable to that authority's level of performance;
- iii. the basis on which the specified amount is calculated; and
- iv. the relevant provisions of the Pension Administration Strategy under which the additional costs have arisen.

Additional costs incurred will be collated and invoiced each calendar year.

**2.4.3** Any disagreement regarding the amount of additional cost being recovered, which cannot be resolved between the employer and Gloucestershire Pension Fund, will be decided by the Secretary of State who will have regard to -

- I. the provisions of the Pension Administration Strategy that are relevant to the case; and
- II. the extent to which Gloucestershire Pension Fund and the Scheme employer have complied with those provisions in carrying out their functions under these Regulations.

## **2.5 Interest on late payments**

**2.5.1** In accordance with the LGPS Regulations, interest may be charged on any amount overdue

from a Scheme employer by more than one month.

**2.5.2** Interest will be calculated at one percentage point above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests.

## **3. Review of the Pension Administration Strategy**

**3.1** The Pension Administration Strategy will be kept under review by the Gloucestershire Pension Fund's Pension Committee.

**3.2** The Pension Committee's relationship with Scheme employers including details on communication, governance, skills and knowledge, etc. is contained within the following documents: Communications Policy; Governance Policy; Governance Compliance Statement. All these documents are available on Gloucestershire Pension Fund's website [www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments)

**3.3** Employers may make suggestions to improve the Pension Administration Strategy for consideration by Gloucestershire Pension Fund at any time.

**3.4** Gloucestershire Pension Fund will revise the Pension Administration Strategy after consulting with Scheme employers and any other persons considered appropriate following a material change in any policy covered in the strategy. When the Gloucestershire Pension Fund publishes its Strategy or a revised Strategy it will send a copy to each of its Scheme employers and to the Secretary of State.

**3.5** Employers are welcome to discuss any aspect of the Pension Administration Strategy with Gloucestershire Pension Fund at any time. Employers are welcome

to visit Gloucestershire Pension Fund at any time, subject to notice.

**3.6** The Gloucestershire Pension Fund Annual Report will give details of the extent to which the Administering Authority and Employers have achieved the levels of performance as detailed in the Administration Strategy as well as such other matters from the Administration Strategy it considers important.

## **4. Employer contribution rates and administration costs**

**4.1** Employers' contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

**4.2** Gloucestershire Pension Fund has an actuarial valuation undertaken every three years by the Fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer, and assesses the appropriate minimum contribution rate for each employer to be applied for the subsequent three years.

**4.3** The cost of running Gloucestershire Pension Fund is charged directly to the Fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

**4.4** If an employer wishes Gloucestershire Pension Fund to carry out any employer specific work, Gloucestershire Pension Fund reserves the right to make a reasonable charge to cover the administration involved, where appropriate. Gloucestershire Pension Fund would always discuss such matters with the employer before any work commenced.

# Executive Summary on the Last Triennial Valuation

An actuarial valuation of the Fund was carried out as at 31st March 2019. The results are briefly summarised below.

## Funding Position

The table below summarises the financial position of the Fund at 31st March 2019, and at the previous three valuation dates, in respect of benefits earned by members up to this date.

	31st March 2010	31st March 2013	31st March 2016	31st March 2019
Past Service Position	£m	£m	£m	£m
Past Service Liabilities	1,498	1,976	2,138	2,338
Market Value of Assets	1,054	1,385	1,703	2,379
Surplus / (Deficit)	(444)	(591)	(435)	41
<b>Funding Level</b>	<b>70.4%</b>	<b>70.1%</b>	<b>79.7%</b>	<b>101.8%</b>

The main reasons for the change in the funding level over the period were better than anticipated investment returns, the effect of expected changes in membership, an increase in the assumed rate of future investment returns, an increase in the assumed rate of inflation and changes in mortality rates.

## Contribution Rates

The table below summarises the whole fund Primary and Secondary Contribution rates at the 2019 valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates calculated in accordance with the Regulations and the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance.

Primary Employer Contribution Rate as a % of pay 1st April 2020 to 31st March 2023	Secondary Rate £000		
	2020/21	2021/22	2022/23
<b>20.9%</b>	30,652	26,850	24,353

The Primary rate includes an allowance of 0.6% of pensionable pay for the Fund's expenses (0.5% at the 2016 valuation). The average employee contribution rate is 6.3% of pensionable pay (6.3% at the 2016 valuation).

The minimum contributions to be paid by each employer from 1st April 2020 to 31st March 2023 are shown in the Rates and Adjustment Certificate on pages 48 to 52.

The next triennial valuation will take place as at 31st March 2022. This will set the minimum contributions to be paid by each employer from 1st April 2023 to 31st March 2026.

A copy of the most recent valuation can be found at [www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments)

### **Result of interim monitoring**

The Fund continues to set life expectancy assumptions using ClubVita, which is a specialised longevity company providing life expectancy assumptions based on annual monitoring of the Fund's own membership. In addition employers' ill health and early retirement experience is monitored and extra contributions obtained where necessary. In 2019/20 extra contributions of £1.7m (£1.6m

2018/19) were collected from employers in connection with early retirements and £0.5m (£1.1m 2018/19) in connection with ill-health retirements.

# Actuarial Report on Fund

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

## Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated February 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members' / dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 17 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% likelihood that the Fund will achieve the funding target over 17 years.

## Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31st March 2019. This valuation revealed that the Fund's assets, which at 31st March 2019 were valued at £2,379 million, were sufficient to meet 102% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon

and probability measure as per the FSS. Individual employers' contributions for the period 1st April 2020 to 31st March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

## Principal Actuarial Assumptions and Method Used to Value the Liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31st March 2019
Discount rate	4.2%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.7 years	23.9 years
Future Pensioners*	22.4 years	25.3 years

\*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

## Experience Over the Period Since 31st March 2019

Markets were disrupted by Covid-19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31st March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31st March 2022. The Funding Strategy Statement will also be reviewed at that time.

### Julie West FFA

For and on behalf of Hymans Robertson LLP  
12th May 2020

Hymans Robertson LLP  
20 Waterloo Street,  
Glasgow, G2 6DB



# Summary Statement to the Rates and Adjustments Certificate

In accordance with regulation 62(4) of the Regulations, the Actuary has made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1st April 2020 to 31st March 2023 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Fund's Funding Strategy Statement and the Actuary's report on the actuarial valuation.

The required minimum contribution rates are set out below.

Employer/Pool	Minimum Contributions for the Year Ending Total Contribution Rate (%/£)		
	2020/21	2021/22	2022/23
<b>Gloucestershire County Council and Schools Pool</b>			
Gloucestershire County Council*	26.8% plus £10,150,000	24.7% plus £150,000	23.7% plus £150,000
Gloucestershire County Council Schools	30.9%	28.9%	27.9%
<b>Stabilised</b>			
Gloucester City Council*	19.4 plus £9,644,000	19.4 plus £0	19.4 plus £0
Cheltenham B.C.*	20.0 plus £8,675,000	20.0 plus £0	20.0 plus £0
Cotswold D.C.* <sup>1</sup>	20.2 plus £4,902,000	20.2 plus £0	20.2 plus £0
Forest of Dean D.C.* <sup>1</sup>	20.3 plus £5,531,000	20.3 plus £0	20.3 plus £0
Stroud D.C.	19.7 plus £2,118,000	19.7 plus £1,840,000	19.7 plus £1,562,000
Tewkesbury B.C.	19.7 plus £1,661,000	19.7 plus £1,465,000	19.7 plus £1,269,000
Police and Crime Commissioner for Gloucestershire**	19.8 plus £512,000	19.8 plus £343,000	19.8 plus £167,000
<b>Town and Parish Councils Pool</b>			
	<b>%</b>	<b>%</b>	<b>%</b>
Berkeley Town Council	23.6	22.4	21.1
Bisley with Lypiatt Parish Council	23.6	22.4	21.1
Brockworth Parish Council	23.6	22.4	21.1
Cainscross Parish Council	23.6	22.4	21.1
Cam Parish Council	23.6	22.4	21.1
Chalford Parish Council	23.6	22.4	21.1
Charlton Kings Parish Council	23.6	22.4	21.1
Cinderford Town Council	23.6	22.4	21.1

continued...

Employer/Pool	Minimum Contributions for the Year Ending Total Contribution Rate (%/£)		
	2020/21	2021/22	2022/23
<b>Town and Parish Councils Pool (continued)</b>	<b>%</b>	<b>%</b>	<b>%</b>
Cirencester Town Council	23.6	22.4	21.1
Coleford Town Council	23.6	22.4	21.1
Dursley Town Council	23.6	22.4	21.1
Hinton Parish Council	23.6	22.4	21.1
Hucclecote Parish Council	23.6	22.4	21.1
King's Stanley Parish Council	23.6	22.4	21.1
Lechlade Town Council	23.6	22.4	21.1
Leonard Stanley Parish Council	23.6	22.4	21.1
Lydney Town Council	23.6	22.4	21.1
Moreton-in-Marsh Town Council	23.6	22.4	21.1
Nailsworth Town Council	23.6	22.4	21.1
Newent Town Council	23.6	22.4	21.1
Northleach with Eastington Town Council	23.6	22.4	21.1
Painswick Parish Council	23.6	22.4	21.1
Prestbury Parish Council	23.6	22.4	21.1
Rodborough Parish Council	23.6	22.4	21.1
Stonehouse Town Council	23.6	22.4	21.1
Stroud Town Council	23.6	22.4	21.1
Tetbury Town Council	23.6	22.4	21.1
Tewkesbury Town Council	23.6	22.4	21.1
Tidenham Parish Council	23.6	22.4	21.1
Wotton-under-Edge Town Council	23.6	22.4	21.1
<b>Colleges and University</b>			
Cirencester Tertiary College	24.8%	24.8%	24.8%
Gloucestershire College	19.2% plus £212,000	19.2% plus £213,000	19.2% plus £213,000
Hartpury University	22.9% plus £93,000	22.9% plus £95,000	22.9% plus £98,000
University of Gloucestershire	22.1% plus £154,000	22.1% plus £158,000	22.1% plus £162,000
<b>Scheduled Bodies</b>			
Cheltenham Borough Homes Ltd	18.0%	18.0%	18.0%
Cotswold Conservation Board	19.0%	19.0%	19.0%
Lower Severn Internal Drainage Board	26.3% plus £57,000	26.3% plus £57,000	26.3% plus £57,000
<b>Admitted Bodies</b>	<b>%</b>	<b>%</b>	<b>%</b>
Adoption West	23.8	23.8	23.8
APCOA	0	0	0
Aspens Catering (Farmors)	29.2	29.2	29.2
Aspire Sports and Cultural Trust	14.9	14.9	14.9
Barnardos Forest of Dean and Stroud	26.8	26.8	26.8
Barnardos Gloucester	0	0	0

continued...

Employer/Pool	Minimum Contributions for the Year Ending Total Contribution Rate (%/£)		
	2020/21	2021/22	2022/23
<b>Admitted Bodies</b> (continued)	<b>%</b>	<b>%</b>	<b>%</b>
Brandon Trust	25.0	25.0	25.0
Cheltenham Trust	23.7	23.7	23.7
Civica (GLOS)	0	0	0
Cotswold Archaeological Trust	29.8	29.8	29.8
Enterprise (AOL) Ltd	0	0	0
Forest of Dean DC - Ubico	0	0	0
Gardners Lane & Oakwood	20.2	20.2	20.2
Gloucester City Homes Trust	24.0	24.0	24.0
Gloucester City IT - Civica	26.6	26.6	26.6
Gloucestershire Airport Ltd.	24.0	24.0	24.0
Gloucestershire Health & Care NHS Foundation	25.5	25.5	25.5
Gloucestershire Group Homes	32.8	32.8	32.8
Places for People	16.3	16.3	16.3
Prospects Services	0	0	0
Ridge Crest Cleaning (Farmors)	28.3	28.3	28.3
Sport Leisure Management (SLM) Ltd	25.3	25.3	25.3
Stroud Court Community Trust	31.3	31.3	31.3
The Order of St. John Care Trust	27.9	27.9	27.9
Tinies UK (Glos College)	22.6	22.6	22.6
Two Rivers Housing	18.1	18.1	18.1
Ubico - Cheltenham Waste	0	0	0
Ubico - Cotswold Waste	21.1	21.1	21.1
Ubico - Tewkesbury	0	0	0
Wealden Leisure (Forest of Dean DC - Leisure)	19.9	19.9	19.9
<b>Multi-Academy Trusts</b>	<b>%</b>	<b>%</b>	<b>%</b>
Academies Enterprise Trust ***	24.3	24.3	24.3
Corinium Education Trust ***	25.2	25.2	25.2
Cotswold Beacon Academy Trust ***	25.7	25.7	25.7
Diocese of Gloucestershire Academies Trust***	27.1	27.1	27.1
Gloucestershire Learning Alliance ***	23.8	23.8	23.8
Greenshaw Learning Trust ***	29.1	29.1	29.1
SGS Academy Trust ***	25.9	25.9	25.9
The Robinswood Academy Trust ***	23.6	23.6	23.6
The White Horse Federation ***	29.0	29.0	29.0
<b>Academies</b>	<b>%</b>	<b>%</b>	<b>%</b>
Abbey View – CCT Learning	26.5	27.1	27.6
All Saints Academy	26.3	24.9	23.4
Balcarras School	27.4	25.9	24.4
Blockley CofE Primary School	27.9	27.4	26.8
Bourton on the Water	25.8	24.5	23.1
Charlton Kings Infant	26.1	24.7	23.3
Charlton Kings Junior	30.6	29.3	27.9
Cheltenham Bournside	30.5	29.2	27.8

continued...

Employer/Pool	Minimum Contributions for the Year Ending Total Contribution Rate (%/£)		
	2020/21	2021/22	2022/23
<b>Academies (continued)</b>	<b>%</b>	<b>%</b>	<b>%</b>
Chipping Campden	28.6	27.9	27.2
Chosen Hill School	30.6	29.5	28.3
Christ Church CofE Primary (Cheltenham)	25.6	25.1	24.6
Churchdown Secondary	33.8	33.3	32.8
Churchdown Village Infants	24.2	23.8	23.3
Cirencester Kingshill	26.3	25.6	24.8
Cleeve School	26.7	25.8	24.8
Dene Magna	32.5	31.8	31.0
Denmark Road High School	33.5	32.4	31.2
Farmors	30.1	30.0	29.8
Field Court Junior	28.1	26.1	24.1
Forest View Primary	31.6	31.0	30.3
Gotherington	38.0	36.5	34.9
Gretton Primary	28.1	28.8	29.4
Highnam C of E	25.8	25.7	25.6
Katharine Lady Berkeleys	31.2	29.7	28.1
Mitton Manor Primary School	28.1	27.1	26.1
Newent Community School Academy	30.2	29.8	29.3
Pate's Grammar School	27.3	26.7	26.0
Redmarley C of E	30.2	30.2	30.3
Ribston Hall High	28.3	26.8	25.2
Severn Vale	30.8	31.5	32.1
Severnbanks Primary School	31.2	30.2	29.1
Sir Thomas Rich's	31.3	29.8	28.3
Sir William Romney	29.8	28.9	27.9
St David's Primary School	24.8	24.3	23.7
St Dominics Catholic Primary	32.6	30.6	28.6
St Mary's Catholic Primary	25.0	24.2	23.4
St Peters High School and Sixth Form	30.6	29.5	28.3
Staunton Corse	27.7	25.7	23.7
Stone with Woodford CofE Primary School	32.3	30.8	29.2
Stroud High School	29.1	28.4	27.6
Tewkesbury School	30.1	29.2	28.3
The Cotswold School	27.8	26.3	24.8
The Crypt School	24.9	23.9	22.8
The Dean Academy	32.5	30.8	29.0
The Rosary Catholic Primary	29.1	27.4	25.7
Thomas Keble	29.1	28.1	27.0
Tredworth Infant School	26.5	25.6	24.6
Winchcombe Secondary	31.4	30.4	29.4
Wyedean School	32.7	31.8	30.8

\*The employer Secondary rates have been amended to reflect contribution pre-payments to be made on 1st April 2020 by the employers to reduce Secondary contributions that were otherwise due in 2021/22 and 2022/23. The Secondary rates for GCC also include an additional £150k p.a. in respect of the former Prospects Services contract.

\*\* The employer Secondary rate in the year 2020/21 has been reduced to reflect up front payment of the whole amount on 1st April 2020.

\*\*\* Each academy within the trust will pay the pooled Multi Academy Trust rate shown.

1 The rates for these Councils are inclusive of the Publica contracts.

## Further comments

Contributions expressed as a percentage of payroll should be paid into Gloucestershire County Council Pension Fund ("the Fund") at a frequency in accordance with the requirements of the Regulations.

Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentations using methods and factors issued by us from time to time or as otherwise agreed.

Payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those included within my assumptions. If an employer has an ill-health liability insurance in place with a suitable insurer and provides satisfactory evidence to

the Administering Authority, then their certified contribution rate may be reduced by the value of their insurance premium, for the period the insurance is in place.\*

The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund actuary.

There has been significant volatility in the financial markets during February and March 2020 as a result of the Covid-19 pandemic. This volatility may impact funding balance sheets for those employers planning to exit the Fund during the period covered by this Rates and Adjustments Certificate. In order to effectively manage employer exits from the

Fund, the Administering authority reserves the right to revisit the contribution rates for employers that are expected to cease participation in the Fund before 31st March 2023. An employer will be contacted by the Administering Authority in this instance.

\* From 1st April 2020 a blanket ill-health insurance policy has been in place covering almost all employers resulting in no amendments to the certified contribution rate.

# Governance

## The Gloucestershire Local Government Pension Scheme (LGPS) Pension Board

All Public Sector Pension schemes were required under the Public Service Pensions Act 2013 to set up a Pension Board with effect from 2015/16 to assist the administering authorities of their Pension scheme in ensuring compliance with LGPS and other pension regulations.

The County Council, as administering authority of the Gloucestershire LGPS agreed the terms of reference of the Pension Board in February 2015. These terms of reference, which were amended during 2019/20, are included within the Fund's Governance Policy document on pages 60 to 62 of this Annual Report.

Taking account of the relevant LGPS regulations and guidance, the Gloucestershire LGPS decided to appoint an independent non voting chair of the Pension Board. An independent chair of the Pension Board cannot have any involvement (e.g. through membership or employer links) with the local pension scheme they would be chairing, but having good experience and knowledge of the LGPS would be advantageous and would assist the other Board members in their role. To comply with these requirements the Gloucestershire LGPS invited the Head of the Pension Fund at the Oxfordshire LGPS, Sean Collins, to become chair of the Gloucestershire Pension Board.

Due to the Covid-19 Pandemic the meeting of the Board scheduled for March 2020 was cancelled. This meant that during 2019/20 there was only one meeting of the Board on 14th November 2019. Unfortunately, although this meeting went ahead, it was not quorate, hence formal minutes of the meeting were not produced. However, at this meeting the following areas were covered:

- The continued development of the Governments requirement for LGPS Funds to combine their investments in pools of at least £25 billion via one FCA regulated company.
- The Risk Register. The Board reviews the risk register at each meeting.
- Pension Administration Arrangements. The Board considered a detailed report on the administration arrangements and performance achieved against key performance indicators.
- The Annual Report of the Pension Fund.
- Ill health Pension Strain insurance arrangements.
- The 2019 Actuarial Valuation

Because of the problems with the 14th November meeting of the Pension Board, the terms of reference for the Board were reviewed and amendments were made which were subsequently approved by the Gloucestershire Pension Committee and Constitution Committee. In order to ensure that all future meetings were quorate, the membership

of the Board was increased from five members to seven members, with the formal quorum remaining as three members, to include one employer representative and one employee representative.

As a result of these changes and the resignation of one of the employee representatives the membership of the Board is as follows:

### Employer representatives

Annette Benson (University of Gloucestershire)

Paul Jones (Cheltenham Borough Council)

Cllr. Nigel Moor (Gloucestershire County Council)

### Scheme member representatives

John Abbott

Michael Hunt

Jon Topping

In addition to attendance at Board Meetings, members of the Pension Board are invited to attend joint training and update sessions with members of the Pension Committee. During 2019/20 a member from the Pension Board attended at training events on "responsible investment" and "investment and risk".

Members of the Pension Board are also sent all agenda papers for the Pension Committee meetings, which they can attend as observers. The minutes of the Pension Board are reported to the next Pension Committee and Cllr Nigel Moor, as a member of the Board, attends to give a verbal update to the Committee on these minutes.



# Governance Compliance

The Pension Fund's Governance structure and the roles and responsibilities of each element within the structure are contained in the Governance Policy Statement on pages 57 to 62 of this report.

Membership of the Pension Committee showing voting rights, attendance at meetings and training received are shown in the matrix opposite. Training days shown includes attendance at courses, seminars and conferences. This is in addition to training received at Pension Committee meetings which includes fund manager and performance presentations, as well as officer and investment advisor briefings.

Meetings were held on 10th May 2019, 20th September 2019, 8th November 2019 and 14th February 2020.

## Fund Governance Compliance Statement

Pension Funds are required to produce a statement explaining how well they comply with a number of best practice principles covering governance arrangements for the Fund. Good governance means there are clear arrangements and controls in place to help ensure the Pension

Member	Voting Rights	Meetings Attended	Training Received Number of Days	
			From 2016/17 to 2019/20	During 2019/20
Cllr. R. Theodoulou	Yes	5	11	2
Cllr. D. Brown	Yes	4	5	3
Cllr. N. Cooper	Yes	3	6	2
Cllr. C. Hay	Yes	4	13	8
Cllr. S. Parsons	Yes	3	5	1
Cllr. R. Smith	Yes	1	4	4
Cllr. L. Stowe	Yes	3	5	2
P. Clark (Scheme Member Rep.)	No	5	8	2

Fund is managed efficiently. The following Governance Compliance Statement was reviewed in July 2017. The statement details the areas where these best practice principles apply, for example, covering committee structure and representation, arrangements for training, etc. The Governance Compliance Statement then indicates whether the Fund is fully compliant in all these areas and refers to the relevant policy documents such as the Governance Policy Statement (on page 57) which gives more information on the governance arrangements which are in place.

## Fund Governance Compliance Statement

Area	Principle	Level of Compliance	Reason for Non-Compliance
<b>A) Structure</b>	a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	FULL - see Governance Policy Statement	
	b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	FULL - see Governance Policy Statement	
	c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not Applicable - There is no secondary committee or panel	
	d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not Applicable - There is no secondary committee or panel	
<b>B) Representation</b>	a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		Concerns over logistics and potential size of Committee but will keep under review.
	i. employing authorities (including non-scheme employers, e.g. admitted bodies);	PARTIAL - not all employing authorities are represented	Employers are able to attend Committee as observers and submit written questions. Also, Employer Forums, which are open to all employers, are held at least twice a year.
	ii. scheme members (including deferred and pensioner scheme members);	FULL - see Governance Policy Statement	
	iii. where appropriate, independent professional observers; and	FULL - see Governance Policy Statement	
	iv. expert advisors (on an ad-hoc basis).	FULL - see Governance Policy Statement	
	b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	FULL - see Governance Policy Statement	

Area	Principle	Level of Compliance	Reason for Non-Compliance
<b>C) Selection and Role of Lay Members</b>	a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	FULL - see Governance Policy Statement	
	b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	FULL - see Governance Policy Statement	
<b>D) Voting</b>	a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	FULL - see Governance Policy Statement	
<b>E) Training/ Facility Time/ Expenses</b>	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	FULL - see Governance Policy Statement and Members Allowances scheme within the Council's Constitution	
	b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	FULL - see Governance Policy Statement and Members Allowances scheme within the Council's Constitution	
	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	FULL - see Governance Policy Statement	
<b>F) Meetings - Frequency</b>	a) That an administering authority's main committee or committees meet at least quarterly.	FULL - see Governance Policy Statement	
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not Applicable - There is no secondary committee or panel	
	c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	FULL - see Governance Policy Statement	

Area	Principle	Level of Compliance	Reason for Non-Compliance
<b>G) Access</b>	a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	FULL - see Governance Policy Statement	
<b>H) Scope</b>	a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	FULL - see Governance Policy Statement	
<b>I) Publicity</b>	a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	FULL - see Governance Policy Statement	

## > Governance Policy Statement

### Introduction

**1.** The County Council, as Administering Authority, has prepared this policy statement and consulted upon it with scheme employers.

**2.** This statement addresses the best practice principles identified in the statutory guidance issued and is in accordance with regulation 55 of the Local Government Pension Scheme (LGPS) Regulations 2013.

**3.** The County Council's Compliance Statement which identifies the level of compliance against these best practice principles is shown as an appendix to this policy statement. The Governance and Policy Statement was reviewed and updated in February 2020.

### Purpose of Governance Policy Statement

**4.** The regulations on governance policy and compliance statements require an administering

authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out:

**(a)** whether it delegates its functions in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority;

**(b)** and, if so, it must state:

- the frequency of any committee /sub-committee meetings;
- the terms of reference, structure and operational procedures of the delegation;
- whether the committee/sub-committee includes representatives of
  - employing authorities (including non-scheme employers)
  - scheme members

◦ and, if there are such representatives, whether they have voting rights.

**(c)** the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not comply, the reasons for not complying; and

**(d)** details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).

**5.** Thus, the policy statement should include information about all of the administering authority's pension fund governance arrangements. Information about the representation of employers should also cover any arrangements for representing admitted body employers (non-scheme employers).

A copy of the Terms of Reference for the Fund's local pension board is included on pages 60 to 62.

## Principle A - Structure

6. The purpose of the Pension Committee is to give advice on the proper management of the Gloucestershire Pension Fund and carry out the function of the Council as Administering Authority.

7. Under the cabinet structure in local government, management of the pension fund is a non-executive function. In Gloucestershire it is linked to the administration by virtue of the Chairman of the Pension Committee being the Deputy

Leader and Cabinet Member for Finance and Change.

### Pension Committee

The Pension Committee reports to County Council. It meets formally each quarter and more frequently if formal decisions on fund management are required.

#### Terms of Reference:

- To set the investment policies of the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, drawing upon professional service providers, considering the forthcoming changes with Pooled Investments within Brunel Partnership.
- To appoint and review the performance of all Fund Managers and associated professional service providers.
- To approve and keep under review the Funding Strategy Statement.
- To approve and keep under review the Investment Strategy Statement.
- To report annually to the full Council.
- To consider any other matter relevant to the proper operation and management of the Fund.
- To review the Council's performance as Administering Authority.
- To decide upon arrangements for managing the Administering Authority's relationship with employers in the Fund e.g. agreeing contribution rates, establishing dispute resolution procedures and ensuring employers have established policies as required by Regulations.
- To decide upon requests for admission of qualifying organisations wishing to join the Fund.
- To decide upon key pension policy and discretions that are the responsibility of the Administering Authority.
- To consider advice and recommendations from the Pension Board on areas that may improve the governance of the Pension Fund (the remit of the Pension Board is detailed in its Terms of Reference).
- To consider the Pension Board's proposed work plan for the forthcoming financial year.

8. The Pension Committee's formal terms of reference (above) are interpreted as including:

- Determining the overall investment strategy and strategic asset allocations of the Fund, with regard to investment suitability and diversification.
- Overseeing the preparation of the Investment Strategy Statement (ISS), including the Fund's policy on socially responsible investment and Corporate Governance.
- Annually reviewing the ISS.
- Monitoring compliance with the ISS
- Overseeing the preparation of the Funding Strategy Statement.
- Approving the Annual Report.
- Appointing, reviewing and when necessary, dismissing, the Fund's investment managers and custodian, subject to changes agreed by Brunel Pension Partnership as part of the Pooled Investments.
- Reviewing investment manager performance against set benchmarks on a regular basis.
- Appointing, reviewing and when necessary, dismissing, the Fund's actuary, investment advisors/consultants and performance measurement consultants.
- Ensuring appropriate Pension Fund governance arrangements are in place in accordance with the LGPS regulations and other regulatory requirements.
- Holding an annual meeting.



## Principle B - Representation

**9.** The role of independent professional observers in e.g. assessing compliance with the ISS' principles and risk management, will be met by elected councillors with support from officers within the County Council and the Fund's independent advisor.

## Principle C – Selection and role of lay members

**10.** The Agenda for any meetings of the Pension Committee will include an item at the start of the meeting inviting all committee members to declare any financial or pecuniary interest related to specific matters on the agenda.

## Principle D – Voting

**11.** The Pension Committee comprises 6 County Councillors, including the Cabinet Member for Finance and Change, together with one voting district council representative and one non-voting scheme member representative (who also represents pensioners and deferred members). The scheme member representative is non-voting because as the LGPS is a statutory scheme with benefits fully protected by statute, any changes in investment or other policies which were voted on by the scheme member representative does not affect the scheme members' benefits.

The Fund's independent investment advisor and the Chief Financial Officer and staff support the Committee in its role.

**12.** Elected councillors already have legal responsibilities for the prudent and effective stewardship of LGPS funds and in more general terms have a clear fiduciary duty in the performance of their functions. Lay members (non councillors) should be reminded that they owe a duty of care to the fund

beneficiaries and are required to act in their best interests at all times, particularly in terms of their investment decisions. They are not there to represent their own local, political or private interest.

## Principle E – Training/ Facility time/Expenses

**13.** Decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. All members of the Committee (including lay members) are offered training, including that offered by the Employers Organisation (and are exposed to presentations at the Committee's quarterly meetings on investment matters). Substitutions are not permitted on the Pension Committee.

**14.** Committee members complete a training requirement self-assessment form. These are used to determine the training to be provided to Committee Members and a log of training undertaken is maintained by the Administering Authority.

**15.** The members' allowances scheme within the County Council's Constitution outlines the process for both councillors and lay members reclaiming expenses. The same rules apply to both councillors and lay members.

## Principle F – Meetings (frequency/quorum)

**16.** The Pension Committee reports to County Council. It meets formally each quarter and more frequently if formal decisions on fund management are required.

Other ways of engaging stakeholders which the Council have adopted are:

- bi-lateral discussions, and similar forums, involving employers and other stakeholders;
- an annual meeting for all employers and fund members;
- a triennial meeting between all employers and the actuary to discuss the results of the actuarial valuation.

## Principle G – Access

**17.** All members of the Pensions Committee have equal access to committee papers, documents and advice.

## Principle H – Scope

**18.** The terms of reference of the Pensions Committee (as detailed in paragraph 7, on page 58 of this document) include general scheme and other administrative issues in connection with their role as Administering Authority.

**19.** The finance and operational arrangements of the Fund are subject to review and audit by both the Fund's external auditor, Grant Thornton, and the Council's own internal audit service. Reports issued by our auditors are subject to consideration by the Council's elected members acting as an audit committee.

## Principle I – Publicity

**20.** The County Council is committed to the widest inclusion of all stakeholders in consultation and communication outside of the formal governance arrangements. In this respect it has made arrangements to make its publications available via the Council's public website and its intranet.

**21.** A copy of the Governance Compliance Statement will be published as part of the Pension Fund Annual Report. The Annual Report is discussed at the Fund's annual meeting which is open to all fund members and employers.



# Terms of Reference for the Pension Board of the Gloucestershire Local Government Pension Fund

## 1. Role of the Pension Board

**1.1** The role of the local Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to –

- Assist Gloucestershire County Council as Scheme Manager; –
  - to secure compliance with the Local Government Pension Scheme (LGPS) Regulations and any other legislation relating to the governance and administration of the LGPS
  - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
  - in such other matters as the LGPS regulations may specify
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

**1.2** In addition the LGPS (Amendment) (Governance) Regulations 2015 expect the Pension Board to assist the Scheme Manager to secure the effective and efficient governance and administration of the LGPS for the Gloucestershire Local Government Pension Fund.

**1.3** The Board shall provide an annual report to the Pension Committee and then to a full meeting of Gloucestershire County Council. The report will include information on the business conducted by the Pension Board with any risks or concerns identified and mitigation steps proposed. The report will also be published on the Pension Fund's website. Any concerns requiring

reporting outside the annual process should be raised with the Pensions Committee.

**1.4** The Pension Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

**1.5** The Pension Board will also help ensure that the Gloucestershire Local Government Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

**1.6** The cost of running the Pension Board will be met from the Pension Fund.

## 2. Appointment of members of the Pension Board

**2.1** The Pension Board shall consist of seven members and be constituted as follows:

a) The Chairman  
The Chair of the Pension Board, who can demonstrate their knowledge and understanding of the Local Government Pension Scheme will be appointed by the Scheme Manager taking due regard of the Appointment of Other Members guidance, as set out in the LGPS Guidance on the creation and operation of Local Pension Boards in England and Wales. The Chair of the Pension Board cannot be a Gloucestershire County Councillor.

b) Three employer representatives who can demonstrate their capacity to represent other scheme employers, and their

knowledge and understanding of the Local Government Pension Scheme. To be appointed by the Scheme Manager taking due regard of the process for appointing Employer and Member Representatives guidance, as set out in the LGPS Guidance on the creation and operation of Local Pension Boards in England and Wales

c) Three scheme member representatives who can demonstrate, their capacity to represent other scheme members, and their knowledge and understanding of the Local Government Pension Scheme. To be appointed by the Scheme Manager taking due regard of the process for appointing Employer and Member Representatives guidance, as set out in the LGPS Guidance on the creation and operation of Local Pension Boards in England and Wales

One of the employer or member representatives should be a County Councillor appointed annually at a meeting of Full Council.

In order to ensure that effective Board Members are appointed who can demonstrate their capacity to represent other scheme employers or members (as appropriate), a direct appointment process will be followed wherever possible, with member representative being selected through nominations made by recognised trade unions, and employer representatives being selected through nominations made from established employers within the Fund.

## 3. Length of term and removal

**3.1** The Chairman, each employer representative, and

scheme member representative so appointed shall serve initially for a 4 year term, which may be extended for further 4 year terms subject to taking due regard of the process for appointing Employer and Member Representatives guidance, and other Members, as set out in the LGPS Guidance on the creation and operation of Local Pension Boards in England and Wales.

**3.2** Board members can be removed on grounds of non attendance, breach of code of conduct and non participation in training.

**3.3** Each Board member should endeavour to attend all Board meetings during the year and is required to attend at least **one** of the scheduled meetings each financial year. In the event of a Board member failing to do this, or other persistent non-attendance then the tenure of that member should be reviewed by the other Board members.

**3.4** Other than by ceasing to be eligible, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all of the other members in attendance at the Board Meeting where this is being considered. The removal of the Chairman also requires the consent of the Scheme Manager.

## 4. Quorum

The Board shall have a formal quorum of 3 to include one employer representative and one member representative.

Because of the specialist nature of their work, no substitution is permitted.

Meetings of the Local Pension Board will always be chaired by the appointed Chair of the Board when in attendance. Where the

Chair is not in attendance at a meeting, those members present will elect a temporary chairperson for that meeting.

## 5. Code of Conduct and Conflicts of Interest

The principles included in the County Council's Member Code of Conduct applies to all members of the Local Pension Board. Likewise, all other relevant County Council policies shall apply to members of the Pension Board.

## 6. Knowledge and Skills

A member of the Pension Board will be conversant with –

- The legislation and associated guidance of the Local Government Pension Scheme (LGPS).
- Any document recording policy about the administration of the LGPS which is for the time being adopted by the Gloucestershire Local Government Pension Fund.

A member of the Pension Board must have knowledge and understanding of –

- The law relating to pensions, and
- Any other matters which are prescribed in regulations.

## 7. Board Meetings and Publication of Board Information

**7.1** The Board shall meet no less than twice per annum. If there is a need for additional meetings these will be determined by the Chair of the Board.

**7.2** The agenda and supporting papers shall be distributed to members of the board 5 clear working days prior to each meeting.

**7.3** Pension Board papers, agendas and minutes of meetings will be published on the Gloucestershire Local Government Pension Fund website subject to the Rules on Access to Information and the Data Protection Act 1998.

**7.4** The reimbursement of reasonable travel and subsistence expenses for attendance at Board meetings and approved training events will be made to Board Members.

## 8. Remit of the Board

The Board shall:

- i. Ensure the Pension Fund's strategy and policy documents are in place and have been maintained in accordance with the LGPS Regulations. These documents are the Communications Policy Statement, Funding Strategy Statement, Governance Compliance Statement, Pensions Administration Strategy, Pension Fund Annual Report and Accounts and Statement of Investment Principles.
- ii. Ensure the Pension Fund's internal Risk Register is in place and reviewed at least annually.
- iii. Review the Pension Fund's performance in complying with the requirements of the LGPS Regulations and any other legislation relating to the governance and administration of the LGPS.
- iv. Review the Pension Fund's performance in complying with the requirements of the Pension Regulator.
- v. Provide advice and make recommendations when required, to the Pensions Committee, on areas that may improve the governance of the Pension Fund.
- vi. Formulate and agree an annual work-plan for the Board.

vii. To carry out any other activities relating to the efficient governance and administration of the Pension Fund, which the Pensions Committee may request the Pension Board to undertake.

## 9. Voting Rights and Decision Making

**9.1** Only members of the Pension Board who are employer or member representatives will have an individual voting right but it is expected the Pension Board

will as far as possible reach a consensus.

**9.2** A majority of Board members, with a voting right and present at a meeting, will be required to agree any decision of the Board, including any referrals back to the Pensions Committee.

## 10. Accountability

The Pension Board will be collectively and individually accountable to the Scheme Manager.

## Definitions

The undernoted terms shall have the following meaning when used in this document:

<b>“Pension Board” or “Board”</b>	Means the local Pension Board for Gloucestershire County Council as Administering Authority for the Gloucestershire Local Government (LGPS) Pension Fund as required under the Public Service Pensions Act 2013
<b>“Scheme Manager”</b>	Means Gloucestershire County Council as Administering Authority of the Gloucestershire Local Government (LGPS) Pension Fund
<b>“LGPS”</b>	The Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
<b>“Scheme”</b>	Means the Local Government Pension Scheme as defined under “LGPS”

# Fund Account and Net Assets Statement

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## > Statement of Accounts 2019/20

### Statement of Responsibilities and Foreword to Accounts

The audited accounts and notes following on pages 67 to 103, summarise the transactions and net assets of the Fund.

### Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (the Chief Financial Officer).
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the statement of accounts.

### The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this statement of accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code of Practice on Local Authority Accounting.
- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

**Steve Mawson**  
**Executive Director of Corporate Services**  
**(and Section 151 Officer)**  
**30th October 2020**

# **Independent Auditor's Report to the Members of Gloucestershire County Council on the pension fund financial statements of Gloucestershire Pension Fund**

## **Opinion**

We have audited the financial statements of Gloucestershire Pension Fund (the 'pension fund') administered by Gloucestershire County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law.

Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **The impact of macro-economic uncertainties on our audit**

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Executive Director of Corporate Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

## **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Corporate Resources use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Executive Director of Corporate Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Executive Director of Corporate Resources conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent



with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

### **Emphasis of Matter - effects of Covid-19 on the valuation of pooled property investments**

We draw attention to Note N2 of the Gloucestershire Pension Fund financial statements and the assumptions made about the future and other major sources of estimation uncertainty which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's pooled property investments as at 31 March 2020. As, disclosed in this note to the financial statements, the valuation of a number of the pooled property funds include a material valuation uncertainty clause given the unknown impact of Covid-19 might have on the real estate market. Our opinion is not modified in respect of this matter.

### **Other information**

The Executive Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial

statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

### **Responsibilities of the Authority, the Executive Director of Corporate Resources and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 26, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Corporate Resources. The Executive Director of Corporate Resources is responsible for the



preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Executive Director of Corporate Resource is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from

fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Peter Barber, Key Audit Partner**

**for and on behalf of  
Grant Thornton UK LLP,  
Local Auditor  
Bristol**

**18 November 2020**

## Fund Account for the year ended 31st March 2020

2018/19		2019/20		
£000		£000	£000	Note
<b>Contributions</b>				
-93,016	employer contributions	-84,158		N20
-18,114	members' contributions	-18,962		N20
-111,130			-103,120	N7
<b>Transfers in from other pension funds</b>				
-6,736	individual transfers from other schemes or funds	-12,575		
-	group transfers from other schemes or funds	-		
-6,736			-12,575	
<b>Other income</b>				
-132	recoveries for services provided		-136	N22
<b>Benefits</b>				
69,453	pensions	73,026		N32
12,203	commutation of pensions and lump sum retirement benefits	13,930		
1,804	lump sum death benefits	1,334		
83,460			88,290	N7
<b>Payments to and on account of leavers</b>				
336	refunds to members leaving scheme or fund	373		
36	payments for members joining state scheme or fund	-1		
4,992	individual transfers to other schemes or funds	7,929		
-	group transfers to other schemes or funds	-		
5,364			8,301	
-29,174	<b>Net (addition) / withdrawals from dealings with members</b>		-19,240	
8,442	<b>Management expenses</b>		10,028	N22
-20,732	<b>Net (additions) / withdrawals including fund management expenses</b>		-9,212	
<b>Returns on investments</b>				
-27,684	investment income	-25,088		N15
3	taxes on income	46		N3 & N15
-90,864	Profit(-) and losses on disposal of investments and changes in market value of investments	168,409		N4
-118,545	<b>Net returns on investments</b>		143,367	
-139,277	<b>Net increase (-) / decrease in the net assets available for benefits during the year</b>		134,155	
2,239,441	<b>Opening net assets of the scheme</b>		2,378,718	
2,378,718	<b>Closing net assets of the scheme</b>		2,244,563	

## Net Asset Statement as at 31st March 2020

2018/19		2019/20	
£000		£000	Note
<b>Investment assets</b>			
323,927	Bonds	331,206	
1,829,558	Pooled investment vehicles	1,681,377	N10
192,478	Property unit trusts	192,062	N10
1,297	Derivative contracts	2,904	N2 & N17
4,972	Other investments - Venture Capital/Private Equity	4,491	
11,753	Cash held on behalf of the investment managers	12,328	N27
4,450	Other investment balances	4,352	
2,368,435		2,228,720	N14
<b>Long term investment assets</b>			
395	Brunel Pension Partnership	427	N9
395		427	
<b>Investment liabilities</b>			
-1,429	Derivative contracts	-4,108	N2 & N17
-1,412	Other investment balances	-946	
-2,841		-5,054	N14
2,365,989	<b>Total Net Investments</b>	2,224,093	
<b>Long term assets</b>			
440	Contributions due from employers	315	
618	Other long term assets (debtors)	-	
1,058		315	N14 & N24
<b>Current assets</b>			
4,708	Contributions due from employers	4,808	
410	Other current assets	471	
618	Money due re. transfer of staff to another pension scheme	618	
256	Payments in advance	250	
8,006	Cash balances	17,539	N2, N23 & N27
13,998		23,686	N14 & N24
<b>Current liabilities</b>			
-26	Unpaid benefits	-18	
-2,301	Other current liabilities	-3,513	
-2,327		-3,531	N14 & N25
2,378,718	<b>Net assets of the scheme available to fund benefits at the reporting period end</b>	2,244,563	N4, N5, N14 & N18

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end but rather summarise the transactions and net assets of the scheme.

The actuarial present value of promised retirement benefits is disclosed at Note N26.

The notes on the following pages form part of these Financial Statements.

# Notes to the Pension Fund Accounts 2019/20

## N1 Introduction

The County Council is the administering body for the Gloucestershire Local Government Pension Fund. This is not only for County Council employees but also for District Councils within the County and other local bodies providing public services. A full list of all employing bodies who are members of the Fund are shown in the Pension Fund's Annual Report alongside the more detailed accounts of the Gloucestershire Pension Fund.

The Fund is governed by the Public Service Pensions Act 2013 and administered in accordance with the following secondary legislation:

- The LGPS Regulations 2013 (as amended)

- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

- The LGPS (Management and Investment of Funds) Regulations 2016 (as amended)

The Fund exists to provide pensions and certain other benefits to former employees. The Pension Fund is not a Gloucestershire County Council fund and is subject to its own audit; therefore balances are not included in the Gloucestershire County Council Consolidated Balance Sheet. The Fund is administered by the Pension Committee, which is a committee of Gloucestershire County Council. The Pension Board was set up with effect from the 1st April 2015 to assist the Pensions Committee in securing compliance with the relevant laws and Regulations and to help the Pension Committee ensure the effective and efficient governance and administration of the Fund.

### Membership Breakdown

Membership of the LGPS is voluntary and employees are free

to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the Fund.

- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Fire fighters, police and teachers have their own separate nationally-administered schemes.

Membership details are set out below:

	31st March 2019	31st March 2020
<b>Number of employers</b>	205	204
<b>Number of employees in the scheme</b>		
County Council	10,241	10,252
Other employers	8,728	8,869
	18,969	19,121
<b>Number of pensioners</b>		
County Council	9,476	9,812
Other employers	6,582	6,795
	16,058	16,607
<b>Deferred pensioners</b>		
County Council	11,996	11,743
Other employers	8,421	8,430
	20,417	20,173
<b>Total number of members in pension scheme</b>	55,444	55,901

In addition there were 4,516 (4,690 2018/19) undecided or unprocessed leavers.

Undecided leavers are those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due.

Unprocessed leavers are those members which represent cases where we are aware that a member has left, but that case has not yet been processed.

## Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2020. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31st March 2019. During 2019/20 employer contribution rates ranged from 14.9% to 40.9% of pensionable pay.

## Benefits

Prior to 1st April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1st April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website.

## N2 Summary of significant accounting policies

### Basis of Preparation

The Statement of Accounts summarises the Funds' transactions for the 2019/20 financial year and its position at year end as at 31st March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts summarise the transactions of the Fund and reports on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial value of promised retirement benefits, valued on an International Accounting Standard (IAS19) basis, is disclosed at Note 26 of these accounts. The accounts are prepared on a going concern basis.

### Critical judgements in applying accounting policies

The net Pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note N26.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies.

## Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end-date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. Income and expenditure have been accounted for on an accruals basis.

The items within the Financial Statements as at 31st March 2020, for which there is a risk of material adjustment in the forthcoming year, are highlighted overleaf:

### Contribution Income

Income and expenditure have been accounted for on an accruals basis and amounts due have been determined in time for inclusion in the accounts. Any amount due in year but unpaid will be classed as a current financial asset. Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Individual transfer values are accounted for when they are paid or received. Bulk transfer values are accrued when the value has been determined.

### Management Expenses

Pension Fund expenses have been accounted for in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*. A more detailed breakdown of management expenses can be found in Note N22.



**Items within the Net Asset Statement as at 31st March 2020, for which there is a risk of material adjustment in the forthcoming year**

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note N26)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	The effects on the net pension liability of changes in the individual assumptions can be measured as follows:  - A 0.5% decrease in the real discount rate would increase the liability by £304m  - A 0.5% increase in the pension increase rate would increase the liability by £273m  - A 0.5% increase in the salary increase rate would increase the liability by £28m
Pooled property investments	The valuation of a number of pooled property funds include a material valuation uncertainty clause given the unknown future impact that COVID-19 might have on the real estate market.	The total value of these pooled property funds in the financial statements as at 31st March 2020 is £183.1m. There is a risk that these investments may be under or overstated in the accounts. A change in market price of 10% would equate to a potential movement of £18.3m.
Private Equity, Infrastructure and Private Debt	Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.  Due to the normal delay in receiving quarterly valuation statements for the underlying funds, accounts production was delayed so as to incorporate March end valuations wherever possible. Investments in Private Equity and Infrastructure funds totalling £8.8m have a valuation date of December 2019.	The total value of Private equity, Infrastructure and Private Debt investments in the financial statements as at 31st March 2020 are £76.735m. There is a risk that these investments may be under or overstated in the accounts, see Note 28.  A change in market price of those holdings valued as at the end of December 2019 of 10% would equate to a potential movement of £0.9m.

**Investment Management Expenses**

Investment Management Expenses comprise of expenses which are incurred in relation to the management of pension fund assets. Where an investment manager's fee has not been received by the reporting period end date, an estimate based upon the market value of the mandate at the end of the reporting period has been used. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately

in Note N22 and grossed up to increase the change in value of investments.

Federated Hermes deducts its fees from a combination of assets held and income distributions and is included within Investment Management Expenses. Technology Venture Partners (TVP) and Yorkshire Fund Managers (YFM) deduct their fees from the value of the assets under their management. Fees for TVP and YFM have not been included as they are the legal responsibility of the managers and not the Fund.

Management costs from Arcmont are deducted from distributions. Brunel Pension Partnership (BPP) passive global equity pooled funds encash units to cover their fees and these have also been included within Investment Management Expenses.

**Acquisition and Transaction Costs of Investments**

Acquisition costs of investments (e.g. stamp duty) and transaction costs are included within Investment Management Expenses with a corresponding offset against



Profit on Disposal of Investments. In addition to the transaction costs disclosed, indirect costs are incurred through the bid/offer spread on investments within pooled investment vehicles. The amounts of indirect costs are not separately provided to the Fund. A more detailed breakdown of management expenses, including transaction costs, can be found in Note N22.

### **Administration Expenses**

All administrative expenses are accounted for on an accrual basis. All staff costs associated with administration is charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. Further information on administrative expenses can be found in Note N22.

### **Oversight & Governance Expenses**

All Oversight and Governance expenses are accounted for on an accrual basis. All staff costs associated with Oversight and Governance is charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. The cost of investment advice from external consultants is included in Oversight & Governance. Further information on Oversight and Governance expenses can be found in Note N22.

### **Investment Income**

Dividends are accounted for when the holding is declared ex-dividend. Any amount not received by the end of the reporting period is recognised as a current financial asset. Investment income arising from the underlying investments of Pooled Investment Vehicles is reinvested within the Pooled

Investment Vehicle and reflected in the unit price.

### **Cash and Cash Equivalents**

Cash comprises cash in hand (bank) and demand deposits (money market funds) which also includes amounts held by the Fund's custodian on behalf of its investment managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in value.

Cash balances held in accordance with the County Councils' Treasury Management Strategy and those held with the Funds' Custodian State Street Global Services, on behalf of investment managers, are in instant access accounts.

### **The Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards.

As permitted under the Code, the Fund has included a note disclosing the actuarial present value of retirement benefits by way of a note to the net asset statement in Note N26.

### **Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of

future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

### **Valuation of Assets**

The SORP requires securities to be valued on a Fair Value Basis therefore assets and liabilities, where there is an active and readily available market price, are valued at the bid price. Where assets do not actively trade through established exchange mechanisms, a price is obtained from the manager of the investment asset through their quarterly reports. Further details of their approach to establishing fair value can be found within Note N28, Basis of Valuation table. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates prevailing as at 31st March 2020. Purchases and sales during the year which require settlement in a foreign currency are converted from/to sterling at the exchange rate prevailing on the trade date. Fixed interest securities are recorded at market value based on their yields. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is re-invested in the fund, net of applicable withholding tax. Property within the property unit trusts are independently valued mainly in accordance with the Royal Institute of Chartered Surveyors valuation standards. Private Equity is valued using the latest financial statements

published by the respective fund managers and in accordance with the International Private Equity and Venture Capital Guidelines. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for movements to the year end.

Financial assets are included in the financial statements on a fair value basis at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from the changes in the fair value of the asset are recognised in the Fund Account.

The values of investment as shown in the net assets statement have been determined at fair value in accordance with the requirements

of the Code and IFRS 13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association).

Gloucestershire Pension Fund and the nine other shareholders each hold a 10% share in Brunel Pension Partnership Ltd (company number 10429110). As such, no fund is deemed to have a significant influence and this long term investment is accounted for at fair value. The asset was initially measured at cost and is subsequently revalued for any impairment.

The accounts for the year ended 31st March 2020 use the valuations for the Fund's assets based on the figures provided by the Fund's custodian, State Street.

### **Derivatives**

Derivative contracts are valued at fair value and are determined using exchange prices at the

reporting date. The fair value is the unrealised profit or loss at the current bid or offer market quoted price of the contract. Derivative contract assets, those with a positive value, are valued at bid price and derivative contract liabilities, those with a negative value, are valued at the offer price. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts. The fair value of the forward currency contracts are based on market forward exchange rates at the year end date.

## **N3 Taxation**

The Fund is exempt from UK capital gains tax on the proceeds of investments sold. Corporation Tax is deducted from UK equity dividends; tax deducted from property unit trusts can be reclaimed. Withholding tax is payable on income from overseas investments. This tax is recovered wherever local tax laws permit.

## N4 Investment Movements Summary

2019/20 Asset Class	Market value at 31st March 2019 £000	Purchases during the year at cost and derivative payments £000	Sales proceeds during the year and derivative receipts £000	Change in market value during the year £000	Market value at 31st March 2020 £000
Bonds	323,927	91,304	-78,310	-5,715	<b>331,206</b>
Equities	-	-	-	-	-
Pooled Investments	1,829,558	858,584	-849,694	-157,071	<b>1,681,377</b>
Property Unit Trusts	192,478	3,821	-2,224	-2,013	<b>192,062</b>
Private Equity	4,972	-	-44	-437	<b>4,491</b>
	<b>2,350,935</b>	<b>953,709</b>	<b>-930,272</b>	<b>-165,236</b>	<b>2,209,136</b>
Derivative contracts:					
Futures	-542	5,058	-3,474	-627	<b>415</b>
Forward currency contracts	410	-	-	-2,029	<b>-1,619</b>
	<b>-132</b>	<b>5,058</b>	<b>-3,474</b>	<b>-2,656</b>	<b>-1,204</b>
<b>Long term investment assets</b>					
Brunel Pension Partnership	395	-	-	32	<b>427</b>
	<b>395</b>	<b>-</b>	<b>-</b>	<b>32</b>	<b>427</b>
<b>Net investment assets</b>	<b>2,351,198</b>	<b>958,767</b>	<b>-933,746</b>	<b>-167,860</b>	<b>2,208,359</b>

In addition to the investments there was £36,204k (£27,520k 2018/19) in cash, cash equivalents and accruals. Cash movements, currency adjustments and other end of year settlements totalled (-£550k) (£583k 2018/19). As a result the total profit (-) and losses on disposal of investments and changes in market value of investments was £168.4m (-£90.9m 2018/19).

2018/19 Asset Class	Market value at 31st March 2018 £000	Purchases during the year at cost and derivative payments £000	Sales proceeds during the year and derivative receipts £000	Change in market value during the year £000	Market value at 31st March 2019 £000
Bonds	288,855	263,080	-229,080	1,072	<b>323,927</b>
Equities	380,754	43,721	-404,809	-19,666	-
Pooled Investments	1,331,728	1,622,774	-1,225,416	100,472	<b>1,829,558</b>
Property Unit Trusts	176,138	7,192	-	9,148	<b>192,478</b>
Private Equity	5,624	36	-2,198	1,510	<b>4,972</b>
	<b>2,183,099</b>	<b>1,936,803</b>	<b>-1,861,503</b>	<b>92,536</b>	<b>2,350,935</b>
Derivative contracts:					
Futures	203	2,945	-1,657	-2,033	<b>-542</b>
Forward currency contracts	187	-	-	223	<b>410</b>
	<b>390</b>	<b>2,945</b>	<b>-1,657</b>	<b>-1,810</b>	<b>-132</b>
<b>Long term investment assets</b>					
Brunel Pension Partnership	840	-	-	-445	<b>395</b>
	<b>840</b>	<b>-</b>	<b>-</b>	<b>-445</b>	<b>395</b>
<b>Net investment assets</b>	<b>2,184,329</b>	<b>1,939,748</b>	<b>-1,863,160</b>	<b>90,281</b>	<b>2,351,198</b>

In addition to the investments there was £27,520k (£55,112k 2017/18) in cash, cash equivalents and accruals. Cash movements, currency adjustments and other end of year settlements totalled £583k (£11,573k 2017/18). As a result the total profit (-) and losses on disposal of investments and changes in market value of investments was -£90.9m (-£74.3m 2017/18).

The change in market value of investments comprises all

increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The closing market value of the derivatives in the previous tables represents fair value as at the year end date. In the case of derivative contracts, which are traded on exchanges, this value is determined using exchange prices at the reporting date. Forward

foreign exchange contracts are over the counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date and entering into an equal and opposite contract as at that date. The profit or loss arising is included within the cash and accruals figure.

All derivative contracts settled during the period are reported within the table as purchases and sales.

## N5 Management of Fund Assets

The market value of investments managed by each external manager at the end of the financial year was:

	2018/19		2019/20	
	£000	%	£000	%
<b>Investments managed by the Brunel Pension Partnership regional asset pool</b>				
Legal & General Investment Management	521,215	21.9	<b>477,178</b>	<b>21.3</b>
Brunel Global High Alpha Fund	-	-	<b>381,851</b>	<b>17.0</b>
Brunel ACS UK Equity Fund	365,801	15.4	<b>292,751</b>	<b>13.0</b>
Brunel Emerging Equity Fund	-	-	<b>120,663</b>	<b>5.4</b>
Brunel Private Equity and Infrastructure Portfolio	2,329	0.1	<b>12,691</b>	<b>0.6</b>
	<b>889,345</b>	<b>37.4</b>	<b>1,285,134</b>	<b>57.3</b>
<b>Investments managed outside of the Brunel Pension Partnership regional asset pool</b>				
BlackRock Advisors (UK)	619,296	26.0	<b>63,290</b>	<b>2.8</b>
Arcmont Asset Management	22,252	0.9	<b>30,752</b>	<b>1.4</b>
CBRE Global Investment Partners	61,678	2.6	<b>62,383</b>	<b>2.8</b>
Golub Capital Partners International	20,145	0.9	<b>33,362</b>	<b>1.5</b>
Hermes Investment Management				
Property Unit Trust	140,675	5.9	<b>142,818</b>	<b>6.4</b>
Aberdeen Standard Investments	79,360	3.3	<b>79,715</b>	<b>3.5</b>
Technology Venture Partners	3,629	0.2	<b>3,733</b>	<b>0.2</b>
Western Asset Management Company	527,664	22.2	<b>521,508</b>	<b>23.2</b>
Yorkshire Fund Managers (YFM)	1,342	0.1	<b>757</b>	<b>0.0</b>
	<b>1,476,041</b>	<b>62.1</b>	<b>938,318</b>	<b>41.8</b>
<b>Total - External Managers</b>	<b>2,365,386</b>	<b>99.5</b>	<b>2,223,452</b>	<b>99.1</b>
In-house cash and accruals	12,730	0.5	<b>20,471</b>	<b>0.9</b>
Cash instruments with Custodian	207	0.0	<b>213</b>	<b>0.0</b>
Brunel Pension Partnership (Shareholding)	395	0.0	<b>427</b>	<b>0.0</b>
	<b>2,378,718</b>	<b>100.0</b>	<b>2,244,563</b>	<b>100.0</b>

Where the value of an investment exceeds 5% of the total value of net assets, details have been disclosed in note N18.

## N6 Actuarial Position of the Fund

In line with the Local Government Pension Scheme Regulations, actuarial valuations of the Fund are required to be undertaken every three years, for the purpose of setting employer contribution rates for the forthcoming triennial period. The latest valuation took place as at 31st March 2019 and established the minimum contribution payments for the three years until 31st March 2023. The next valuation will take place as at March 2022.

The estimate of the pension fund liability is subject to significant variations, based on changes to the underlying assumptions used - please see table at the bottom of the Note.

The table below summarises the whole fund Primary and Secondary Contribution rates at the 2019 valuation. The 2016 valuation results of the Fund are shown for comparison.

	Last Valuation 31st March 2016		This Valuation 31st March 2019	
<b>Primary Rate (% of pay)</b>	19.6%		20.9%	
Secondary Rate (£)	2017/18	32,487,000	2020/21	30,652,000
	2018/19	36,638,000	2021/22	26,850,000
	2019/20	40,905,000	2022/23	24,353,000

Individual employers' rates will vary depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2019 actuarial valuation report and the Funding Strategy Statement on the Fund's website. The Actuary has made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1st April 2020 to 31st March 2023 in order to maintain the solvency of the Fund.

The market value of the Fund's assets at the March 2019 triennial valuation date was £2,379m (£1,703m March 2016) and represented 102% (79.7% March 2016) of the Fund's accrued liabilities.

The contribution rate has been calculated using the projected evolution of each employers' assets and benefit payments and the main actuarial assumptions used are as follows:

	Funding Basis	
	2016	2019
Rate of return on investments (Discount Rate)	4.0% pa	<b>4.2% pa</b>
Rate of general pay increases	2.4% pa	<b>2.6% pa</b>
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	2.1% pa	<b>2.3% pa</b>

The full actuarial valuation reports for 2007, 2010, 2013, 2016 and 2019 are published on the Pension pages of the County Council's website.

See note N26 for details of the Actuarial Present Value of Promised Retirement Benefits.



## N7 Analysis of Contributions Receivable and Benefits Payable

	2018/19		2019/20	
	Contributions receivable £000	Benefits payable £000	Contributions receivable £000	Benefits payable £000
Gloucestershire County Council (Administering Authority)	42,619	44,342	<b>46,486</b>	<b>46,656</b>
Scheduled Bodies (164 19/20) (162 18/19)* (Bodies admitted by right)	46,784	33,487	<b>50,666</b>	<b>35,667</b>
Admitted Bodies (39 19/20) (42 18/19)* (Bodies admitted by agreement)	<b>**21,727</b>	5,631	<b>5,968</b>	<b>5,967</b>
	111,130	83,460	<b>103,120</b>	<b>88,290</b>

Scheduled bodies now include 97 (96 18/19) schools who have converted to academy status.

\* These numbers relate to active employers with active members

\*\* During 2018/19, two Admitted Body employers left the scheme and paid one-off exit payments, as calculated by the Fund actuary, resulting in an increase in contributions received in that year

## N8 Investment Strategy Statement

The Fund's Investment Strategy Statement (ISS) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 can be found on the Fund's website [www.gloucestershire.gov.uk/pensions/investments](http://www.gloucestershire.gov.uk/pensions/investments). It includes a statement on the Fund's approach to pooling its investment assets as required under the Regulations.

## N9 Related Party Transactions

Gloucestershire County Council, as Administering Authority for the Fund, incurred the following costs in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund. All monies owing to and due from the Fund were paid or accrued for in the year.

	2018/19 £000	2019/20 £000
Administrative expenses	2,128	<b>2,362</b>

Part of the Pension Fund's cash holdings are invested on the money markets by the Treasury Management team of Gloucestershire County Council, see notes N2, N23 and N27.

Of the County Council's key management personnel, some of the Executive Director Corporate Resources and Director of Finance remuneration costs were recharged to the Fund to reflect time spent supporting the Fund. These consisted of salary, fees and allowances of £11,209 (£10,820 2018/19) and employers' pension contributions of £3,464 (£3,235 2018/19).

The Executive Director and Director are members of the Fund as contributing Gloucestershire County Council employees. This does not impact on their role as Finance Director and S151 officer, which is clearly defined.

The Pensions Committee is the decision making body for the Fund and Gloucestershire County Council nominates 6 voting committee members.

Each member of the Pension Committee is required to declare their interests at each meeting.

Mr. P. Clark, the Scheme Member Representative, is a non-voting member of the Pension Committee. Mr. Clark is a contributing member of the Pension Fund and this does not impact on his Pension Committee role.



Three members of the Pension Committee were also District Council members as at 31st March 2020 and these are detailed below:

Member	District Council
Cllr. D. Brown	Gloucester City Council
Cllr. N. Cooper	Stroud District Council
Cllr. R. Theodoulou	Cotswold District Council

In addition to the roles outlined above, Cllr. R. Theodoulou is the corporate shareholder representative for Gloucestershire Pension Fund for Brunel Pension Partnership (BPP Ltd), and up to April 2019 was the corporate shareholder representation for Gloucestershire County Council for UBICO Limited. Cllr. L. Stowe took over as corporate shareholder representative for the Gloucestershire County Council for UBICO Limited from April 2019. Cllr. N. Cooper is a governor of Archway School. Ubico Limited and Archway School are employers in the Fund.

The Pension Board was created on the 1st April 2015. Two members of the Board are members of the Fund as contributing employees and another one is in receipt of pension benefits. This does not impact on their roles as members of the Pension Board given the nature of the Board's functions.

Transactions between employers and the Fund are disclosed in note N7.

### Brunel Pension Partnership Ltd (Company Number 10429110)

Brunel Pension Partnership Ltd. (BPP Ltd.) was formed on the 14th October 2016 and will oversee the investment of pension fund assets for Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset and Wiltshire Funds.

Each of the ten local authorities, including Gloucestershire County Council own 10% of BPP Ltd. Pension Fund transactions with BPP Ltd. are as follows:

	2018/19 £000	2019/20 £000
Income	-	-
Expenditure	641	<b>860</b>
Debtors	-	-
Creditors	256	<b>250</b>
	<b>897</b>	<b>1,110</b>

In addition to their role as Pension Committee member and Cotswold District Council councillor, Cllr. R Theodoulou sits on the Committee of Brunel Pension Partnership Ltd as Chair of the Brunel Oversight Board (BOB).

### N9a Key Management Personnel

The key management personnel of the Fund are the Section 151 Officer and the Head of Pensions. The Section 151 Officer's costs have not been included as the Pension Fund is recharged on a time spent basis and their salary is accounted for in Gloucestershire County Council's accounts.

Total remuneration payable to the Head of Pensions position, 0.8 full time equivalent (F.T.E.), (0.9 F.T.E. 2018/19) is set out below.

	2018/19 £000	2019/20 £000
Short-term benefits	72	<b>73</b>
Post-employment benefits	36	<b>37</b>
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	<b>108</b>	<b>110</b>

### N10 Contingent Liabilities and Contractual Commitments

The Fund has investment commitments with seven managers where the investment manager has not yet drawn down all monies due. These commitments relate to investments in private debt, property funds, private equity and infrastructure and are requested as and when the respective investment manager identifies an investment opportunity. The amounts requested can therefore be irregular in both size and timing.

During the year the Fund increased its commitment to the Brunel Pension Partnership's (BPP) infrastructure mandate by £80m and private equity mandate by £60m. The Fund also committed to invest £50m into BPP's international property mandate and £80m into its private debt mandate. These last two mandates are still in the process of being set up. Brunel anticipates that investment in its private equity and infrastructure funds may be fully drawn down by 2026.

It is estimated that the private debt funds managed by Arcmont and Golub will have drawn down 80-85% of their total commitment by the end of 2020 and may then start returning funds as investments mature rather than draw down the entire commitment. No further funds will be drawn down by CBRE as assets managed by them were transferred in the early part of April 2020 to Brunel as part of the pooling initiative.

The following table shows the Fund's total commitment and the remaining liability, following drawdowns, at the year end.

	<b>Total Commitment £000</b>	<b>Outstanding liability 2018/19 £000</b>	<b>Outstanding liability 2019/20 £000</b>
Arcmont Asset Management LLP (private debt)	50,000	27,730	<b>17,532</b>
CBRE Global Investment Partners (property)	41,000	1,531	-
Golub Capital Partners International (private debt)	40,000	19,625	<b>5,798</b>
Brunel Pension Partnership (private equity)	103,000	42,562	<b>96,930</b>
Brunel Pension Partnership (infrastructure)	123,000	41,119	<b>116,212</b>
Brunel Pension Partnership (international property)	50,000	-	<b>50,000</b>
Brunel Pension Partnership (private debt)	80,000	-	<b>80,000</b>
	<b>487,000</b>	<b>132,567</b>	<b>366,472</b>

Twelve admitted body employers in the Pension Fund held insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default. No such defaults have occurred in 2019/20 (2018/19 nil).

## N11 Contingent Assets

Due to retrospective adjustments to how pension payments are made for Registration staff working additional hours or on a fee basis, a contingent asset of £38,504 (18/19 £38,504) has been identified as possible additional contributions from ex members of staff, during 2020/2021 and future years.

## N12 Unquoted Holdings

The following holdings are unquoted:

Pooled investment vehicles	2018/19 £000	2019/20 £000
UK equity unit trust	365,801	292,751
Overseas equity unit trust	-	120,663
Global equity unit trust	-	381,851
UK equity unitised insurance policy	13,245	-
Overseas equity unitised insurance policy	681,244	63,255
Global equity unitised insurance policy	303,244	477,178
Global multi asset unitised insurance policy	78,167	79,715
UK property managed fund	8,174	8,034
Overseas fixed interest managed fund	183,405	173,831
UK property limited liability partnership	476	181
UK private debt limited liability partnership	22,252	30,752
Overseas private debt limited liability partnership	20,145	33,363
UK infrastructure limited liability partnership	1,797	2,416
Overseas infrastructure limited liability partnership	-	3,887
Overseas fixed interest limited liability partnership	-	6,769
Overseas private equity limited liability partnership	480	6,317
	1,678,430	1,680,963
<b>Property unit trusts</b>		
UK property unit trust	38,196	35,753
Overseas property unit trust	13,608	14,554
	51,804	50,307
<b>Total</b>	<b>1,730,234</b>	<b>1,731,270</b>

## N13 Stocklending

The Pension Funds' custodian has been authorised to release stock to third parties under a stock lending arrangement. At 31st March 2020 the value of stock out on loan was £4.8m of which £3.7m was in UK Government stock and £1.1m was in Overseas Equity, (In 18/19 the value out on loan was £1.6m of UK Government stock).

Collateral of £5.6m (£1.7m) equal to 116.5% (106.4%) of stock out on loan was held in the form of UK Government stock and a restrictive list of Overseas Equities.

The Pension Fund stipulates those institutions that are allowed to borrow its stock and the type of collateral that is acceptable.

These investments continue to be recognised in the Fund's financial statements. During the period the stock is on loan, the voting rights of the loaned stocks pass to the borrower

## N14 Financial Asset Analysis

Financial assets				2018/19 £000	2019/20 £000	Note
<b>Bonds</b>						
UK	- Public Sector	- Quoted		46,521	35,982	
	- Corporate	- Quoted		256,694	272,504	
Overseas	- Public Sector	- Quoted		1,741	9,350	
	- Corporate	- Quoted		18,971	13,370	
				323,927	331,206	
<b>Pooled investment vehicles</b>						
<b>Unit Trusts</b>						
UK	- Equities	- Unquoted		365,801	292,751	
Overseas	- Equities	- Quoted		142,740	-	
Overseas	- Equities	- Unquoted		-	120,663	
Global	- Equities	- Unquoted		-	381,851	
<b>Unitised Insurance Policies</b>						
UK	- Equities	- Unquoted		13,245	-	
Overseas	- Equities	- Unquoted*		681,244	63,255	
Global	- Equities	- Unquoted*		303,244	477,178	
Global	- Multi Asset	- Unquoted*		78,167	79,715	
<b>Other Managed Funds</b>						
O.E.I.C.'s	- Overseas - Fixed Interest	- Quoted*		8,388	414	
	- Overseas - Fixed Interest	- Unquoted*		183,405	173,831	
	- UK - Property	- Unquoted		8,174	8,034	
<b>Limited Liability Partnerships</b>						
	- UK - Private Debt	- Unquoted		22,252	30,752	
	- Overseas - Private Debt	- Unquoted		20,145	33,363	
	- UK - Property	- Unquoted		476	181	
	- UK - Infrastructure	- Unquoted		1,797	2,416	
	- Overseas - Infrastructure	- Unquoted		-	3,887	
	- Overseas - Private Equity	- Unquoted*		480	6,317	
	- Overseas Fixed Interest	- Unquoted		-	6,769	
				1,829,558	1,681,377	N10
<b>Property Unit Trusts</b>						
UK		- Quoted		140,674	141,755	
		- Unquoted		38,196	35,753	
Overseas		- Unquoted		13,608	14,554	
				192,478	192,062	N10
<b>Derivative Contracts</b>						
Futures	- UK			-	211	
	- Overseas			773	2,215	
Forward Foreign Exchange Contracts				524	478	
				1,297	2,904	N17
<b>Other Investments</b>						
Venture Capital/Private Equity - UK				4,972	4,491	
<b>Cash (Managers)</b>						
Cash Instruments	- UK			7,043	9,070	
	- Overseas			2,142	1,006	
Cash Deposits	- UK			1,334	121	
	- Overseas			1,234	2,131	
				11,753	12,328	
<b>Other Investment Balances</b>						
<b>Debtors</b>						
Outstanding settlement of investment transactions				-	-	
Accrued dividend income and tax reclaims due on dividend income				4,450	4,352	
				4,450	4,352	
<b>Long Term Financial Assets</b>						
Brunel Pension Partnership				395	427	N9
<b>Total Financial Assets</b>				2,368,830	2,229,147	

Financial Liabilities	2018/19 £000	2019/20 £000	Note
<b>Derivative Contracts</b>			
Futures – UK	-70	-	
Futures – Overseas	-1,245	-2,011	
Forward Foreign Exchange Contracts	-114	-2,097	
	-1,429	-4,108	N17
<b>Other Investment Balances</b>			
<b>Creditors</b>			
Outstanding settlement of investment transactions	-1,412	-946	
<b>Total Financial Liabilities</b>	-2,841	-5,054	
<b>Long Term Assets</b>			
Contributions due from employers	440	315	
Money due re. transfer of staff to another pension scheme	618	-	
	1,058	315	N24
<b>Current Assets</b>			
Contributions due from employers	4,708	4,808	
Other current assets (debtors)	410	471	
Money due re. transfer of staff to another pension scheme	618	618	
Payments in advance	256	250	
Cash balances	8,006	17,539	N23
	13,998	23,686	N24
<b>Current Liabilities</b>			
Unpaid benefits	-26	-18	
Other liabilities (creditors)	-2,301	-3,513	
	-2,327	-3,531	N25
<b>Total</b>	<b>2,378,718</b>	<b>2,244,563</b>	

\* These overseas pooled funds may incorporate some UK assets.

## N15 Investment Income

Investment income arises from the following investment categories: >

\* During 2018/19 the Private Equity managers confirmed that historic cash distributions should have been treated as a return of capital rather than dividend income. Therefore all income received since 2011 has been removed from dividends and has been used to reduce the book cost of the investments resulting in an increase in unrealised profit.

	2018/19 £000	2019/20 £000
Bonds	9,293	12,222
Equities	9,957	-
Pooled investment vehicles	9,658	12,476
Interest on cash deposits	99	303
Private equity*	-1,401	-
Other income from stocklending, underwriting and class actions	78	87
	27,684	25,088
Withholding tax	-3	-46
	27,681	25,042

In November 2018 assets were transferred from the manager of the directly held UK equity portfolio to a pooled fund managed by the Brunel Pension Partnership (BPP). The investment income arising from the underlying investments of this pooled fund is reinvested and reflected in the unit price rather than as income received.

## N16 Separately Invested Additional Voluntary Contributions (AVC's)

Gloucestershire County Council LGPS provides additional voluntary contribution (AVC) schemes for its members, with The Prudential Assurance Company Limited and Phoenix Life Limited. The AVC's are invested separately in funds managed by them. These are in the form of with-profits, unit-linked and deposit accounts and secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement confirming amounts held to their account and movements in the year. These amounts are not included in the Pension Fund Accounts in accordance with Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

### Value of separately invested additional voluntary contributions

	31st March 2019 £000	31st March 2020 £000
The Prudential Assurance Company Limited	6,880	<b>6,385</b>
Phoenix Life Limited	18	<b>18</b>
	6,898	<b>6,403</b>

Contributions paid by members in the Prudential scheme during 2019/20 totalled £557,479 (2018/19 £647,390) which included additional death in service premiums totalling £948 (2018/19 £4,216).

## N17 Derivatives

Investments in derivatives are only made if they contribute to a reduction of risks and facilitate efficient portfolio management. A derivative is a generic term for financial instruments used in the management of portfolios and is a financial contract between two parties, the value of which is determined by the underlying asset. Derivatives include futures, forwards, swaps and options.

The fixed income portfolio uses futures for duration management purposes. Additionally, the investment strategy for this manager, for the majority of overseas currency exposures, is to be fully hedged back to Sterling which is achieved by the use of foreign exchange forward contracts. To mitigate large unrealised profits or losses accruing with any one counterparty the contracts are split between a handful of banks and the contracts rolled quarterly in order that gains or losses are realised at regular intervals.

The investment strategy of the property manager with overseas holdings is to place forward currency trades with the intention of hedging foreign currency exposure to ensure the portfolio is not impacted by currency fluctuations. The hedges are achieved by placing foreign exchange forward contracts with the Fund's custodian.



## Derivative Contract Analysis

	Contract type*	2018/19 Notional Value £000	2019/20 Notional Value £000	Expiration	2018/19 Market Value £000	2019/20 Market Value £000
<b>Investment Assets</b>						
<b>Futures</b>						
UK - Fixed Interest						
UK Long Gilt Future	ET	-	-9,806	Less than 3 months	-	211
UK Futures		-	-9,806		-	211
Overseas - Fixed Interest						
US Treasury Long Bond Future	ET	1,723	1,444	Less than 3 months	47	105
US 5yr Note Future	ET	68,801	53,886	Less than 3 months	726	2,034
German Euro-Bund Future	ET	-	-7,480		-	76
Overseas Futures		70,524	47,850		773	2,215
Total Futures		70,524	38,044		773	2,426
Forward foreign exchange contracts	OTC	42,329	10,805	Less than 3 months	524	478
<b>Total Derivative Assets</b>		<b>112,853</b>	<b>48,849</b>		<b>1,297</b>	<b>2,904</b>
<b>Investment Liabilities</b>						
<b>Futures</b>						
UK - Fixed Interest						
UK Long Gilt Future	ET	-4,528	-	Less than 3 months	-70	-
UK Futures		-4,528	-		-70	-
Overseas - Fixed Interest						
German Euro Bund Future	ET	-36,838	-	Less than 3 months	-795	-
US 10yr Note Future	ET	-13,155	-19,574	Less than 3 months	-223	-1,084
US Ultra Bond Future	ET	-	-9,663	Less than 3 months	-	-927
US Treasury Bond Future	ET	-6,446	-	Less than 3 months	-227	-
Overseas Futures		-56,439	-29,237		-1,245	-2,011
Total Futures		-60,967	-29,237		-1,315	-2,011
Forward foreign exchange contracts	OTC	15,407	46,343	Less than 3 months	-114	-2,097
<b>Total Derivative Liabilities</b>		<b>-45,560</b>	<b>17,106</b>		<b>-1,429</b>	<b>-4,108</b>
<b>Net Futures</b>					<b>-132</b>	<b>-1,204</b>

\* Contract types ET (exchange traded) OTC (over-the-counter)

A breakdown of the open forward foreign exchange contracts at 31st March 2020 is given below:-

#### Open Forward Currency Contracts at 31st March 2020

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to six months	EUR	5,297	GBP	4,475	217	
Up to six months	EUR	4,032	GBP	3,415	156	
Up to six months	EUR	1,134	GBP	946	58	
Up to three months	GBP	1,001	USD	1,192	41	
Up to three months	GBP	968	USD	1,194	6	
Up to three months	GBP	816	USD	1,013		0
Up to three months	GBP	907	USD	1,126		-1
Up to three months	EUR	502	GBP	449		-4
Up to three months	USD	668	GBP	543		-5
Up to three months	GBP	567	USD	735		-25
Up to three months	GBP	1,929	EUR	2,208		-27
Up to three months	GBP	760	USD	982		-31
Up to three months	USD	963	GBP	816		-40
Up to three months	USD	2,795	GBP	2,362		-110
Up to six months	GBP	5,964	USD	7,799		-321
Up to six months	GBP	7,842	USD	10,206		-382
Up to six months	GBP	9,138	USD	11,878		-432
Up to six months	GBP	14,250	EUR	16,900		-719
<b>Open forward currency contracts at 31st March 2020</b>					478	-2,097
<b>Net forward currency contracts at 31st March 2020</b>						<b>-1,619</b>
<b>Prior year comparative</b>						
Open forward currency contracts at 31st March 2019					524	-114
Net forward currency contracts at 31st March 2019						410

## N18 Investments Exceeding 5% of Total Net Assets

At 31st March 2020 the Pension Fund held seven, (2018/19, eight) investments that each exceeded 5% of the total value of the net assets of the scheme and seven investments totalled £1,427,790k out of a total market value for the Fund of £2,244,563k and are detailed below:

Investments exceeding 5% of Total Net Assets	2018/19		2019/20	
	£000	%	£000	%
BlackRock Global Equity Fund	476,518	20.3	*	
Brunel Global High Alpha Equity Fund	-	-	<b>381,851</b>	<b>17.0</b>
Brunel ACS UK Equity Fund	365,801	15.4	<b>292,751</b>	<b>13.0</b>
Legal & General SSciBeta Multi Factor Developed Equity Index Fund	-	-	<b>196,325</b>	<b>8.7</b>
Legg Mason Global Funds - WA GMS	183,405	7.7	<b>173,831</b>	<b>7.7</b>
Legal & General Multi Factor North America Fund	142,913	6.0	-	-
BlackRock Emerging Markets Index Fund	142,740	6.0	-	-
Hermes Property Unit Trust	140,674	5.9	<b>141,755</b>	<b>6.3</b>
Brunel Emerging Markets Equity Fund	-	-	<b>120,663</b>	<b>5.4</b>
Legal & General Developed World Equity Index Fund	127,496	5.3	<b>120,614</b>	<b>5.4</b>
Legal & General Developed World Equity Hedged Currency Index Fund	124,997	5.2	*	
	<b>1,704,544</b>	<b>71.8</b>	<b>1,427,790</b>	<b>63.5</b>

\*The Fund continues to hold the BlackRock Global Equity Fund and Legal & General Developed World Equity Hedged Currency Index Fund, however their values have dropped below 5% of Total Net Assets standing at £63,255,000 (2.82%) and £111,772,000 (4.98%) respectively.

The BlackRock Global Fund is a Unitised Insurance Policy investing in global equities. Blackrock Emerging is a Unit Trust investing in emerging markets.

The Brunel Funds are Unit Trusts.

The Legg Mason Global Fund is an O.E.I.C. investing in overseas fixed interest.

Hermes Property Unit Trust is a Property Unit Trust.

The Legal & General Funds are passively managed Unitised Insurance Policies.

## N19 Agency Services

The Pension Fund pays discretionary pension awards to former employees on behalf of some Pension Fund employers. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

	2018/19 £000	2019/20 £000
Discretionary Payments	1,100	<b>1,115</b>

## N20 Contributions Breakdown

The employers' monthly contributions are based on a percentage of pensionable pay. Deficit funding payments are either based on a percentage of pensionable pay or paid as a lump sum. Both

monthly contributions and deficit funding payments have been identified below. The deficit funding

Contributions Breakdown	2018/19 £000	2019/20 £000
<b>From Employers:</b>		
Normal	54,499	<b>57,371</b>
Augmentation	-	-
Deficit Funding	22,349	<b>25,757</b>
Section 75 debt (cessation of employer)	13,447	<b>-1,194</b>
Other	2,721	<b>2,224</b>
	<b>93,016</b>	<b>84,158</b>
<b>From Members:</b>		
Normal	17,869	<b>18,789</b>
Additional Voluntary	245	<b>173</b>
	<b>18,114</b>	<b>18,962</b>

contributions relate to past service benefit accrual and are payable over an agreed recovery period, not exceeding 17 years.

Employers who left the scheme during 2018/19 paid outstanding deficit payments, where necessary, and this was included under Section 75 debt.

A revision to the Regulations in May 2018 and a further more recent revision permits, at the discretion of the Pension Fund, the payment of an exit credit to an employer. Accruals for possible payments have been included within Section 75 debt in 2019/20.

Other contributions are those contributions paid by an employer to compensate the Pension Fund for early retirement costs, excess ill health retirement costs or to improve their funding levels.

These payments follow the principles outlined in the Funding Strategy Statement. Early retirement costs are usually paid in one lump sum or were historically paid over several years dependent on the status of the employer. When a payment is spread there is an extra cost to reflect the delay in total payment. There are currently no early retirement costs being spread and at 31st March 2020 there were no accrued early retirements due to the Fund (2018/19 nil).

Excess ill health retirement costs are invoiced for as they arise and funding level payments are made by an employer voluntarily. At 31st March 2020 £117k (2018/19 £505k) was due to the Pension fund for ill health retirement costs which have been accrued; this is the final instalment of a payment which was being spread over two years (2018/19 £235k).

It had been agreed previously that an employer who left the Fund in 2008/09 could spread the payment of their deficit over a number of years. The total amount was credited to the Pension Fund

and an accrual made for the outstanding amount. The accrual is rolled forward each year and adjusted for deficit payments made.

## N21 Custody of Investments

The accounts for the year ended 31st March 2020 use the valuations for the Fund's assets provided by our custodian, State Street Global Services. This reflects the position of the custodian who is ultimately the master book of record. Custodian records are regularly reconciled with the Fund Manager's records. Using the custodian's valuations ensures that the various portfolios are priced consistently, so that the same stocks, in different portfolios, are valued on the same basis. Investments held in custody by State Street Global Services on behalf of the Pension Fund, are ring fenced from the assets of the Bank and segregated within its books as belonging to Gloucestershire Pension Fund.

## N22 Management Expenses

Pension Fund expenses have been accounted for in accordance with the *CIPFA guidance Accounting for Local Government Pension Scheme Management Costs*.

Investment management expenses are generally set on a fixed fee basis, calculated using the market value of each portfolio. The cost of investment management expenses varies with the value of assets under management.

The increased investment management expenses during the period of £1.3 million arise as a result of three key factors:

- The operational activities of the Brunel Pension Partnership (BPP) which the Gloucestershire Fund is an equal shareholder with nine other Pension Funds.
- The change in the Strategic Asset Allocation of the Fund.
- A different fee structure for the BPP UK equities mandate compared to the previous investment mandate held by the Fund.

### Brunel Pension Partnership

The costs relating to the Brunel Pension Partnership increased by £535,448 in 2019/20 compared with 2018/19, including £120,347 relating to a cost adjustment in respect of the Shareholder budget for 2018/19. The remainder of the increase was due to the increase in the overall operational budget of the BPP agreed by all the shareholders. This increase was required to increase the investment capacity within the BPP in order to achieve the agreed asset transition plan.

### Change in Strategic Asset Allocation

In accordance with the new agreed strategic asset allocation, the management of the Emerging Markets investment mandate was moved from a passive management arrangement to the BPP active management mandate, with the aim of increasing investment returns.

Management expenses	2018/19 £000	2019/20 £000
Investment management expenses *	6,492	7,797
Administration expenses	1,397	1,509
Oversight & governance	553	722
	8,442	10,028

\* Please see a more detailed breakdown of the investment management expenses overleaf.

<b>Investment management expenses</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Fund value based management fees		
- invoiced	4,798	<b>4,165</b>
- deducted from investment	544	<b>2,566</b>
	5,342	<b>6,731</b>
Performance fee		
- invoiced	-	-
- deducted from investment	544	<b>568</b>
	544	<b>568</b>
	5,886	<b>7,299</b>
Transaction costs		
- equities	233	-
- derivatives	27	<b>29</b>
- bonds	1	-
- pooled funds	167	<b>338</b>
	428	<b>367</b>
Custody costs	176	<b>131</b>
Tax and legal costs	2	-
	6,492	<b>7,797</b>

This move resulted in increased fees and transition costs of £297,638 in 2019/20. There was also an increased investment in Private Markets and Infrastructure investments, to deliver increased diversification to the Fund, which resulted in increased investment fees and transition costs of £491,461. These changes, which were supported by the Independent Investment advisor to the Fund, are designed to improve investment returns, and increase diversification and reduce investment risks to the Fund.

### UK Equities Investment

The pre BPP UK Equities mandate held by the Fund had a fee structure, which was based on a base investment fee and a performance related fee which would be payable based on performance in excess of the UK Equities benchmark. The BPP fee is now based solely on a base investment fee, with no performance fee payable for investment returns in excess of benchmark. As a result of this

change base fees increased by £314,154, but will be fully covered provided that the BPP mandate delivers against the agreed performance target.

The increase in Administration Expenses is largely due to an increase in IT costs in relation to cloud hosting. The increase in Oversight & Governance is mainly due to an increase in actuarial fees incurred during the triennial valuation.

Within Oversight and Governance costs there were actuarial expenses of £123,512 (£126,358 2018/19) generated by specific employer requirements, these were then charged back to the employer. The corresponding income is included within Recoveries for Services Provided in the Fund Account.

In addition to the recharged actuarial expenses, recoveries for services provided includes £12,586 (£5,328 18/19) for pension and fee reimbursements.

The management fees disclosed include all investment management fees directly incurred by the Fund. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

### Audit Fees

Audit fees of £24,605 (£18,325 in 2018/19) were incurred in relation to Grant Thornton UK LLP, the auditors appointed by Public Sector Audit Appointments Ltd for external audit services.

### Transaction costs

When an asset is purchased or sold a cost is incurred for broker commission and stamp duty, when appropriate, based on a small percentage of the value of assets being transacted.

Transaction costs of £367,207 (£427,453 2018/19) were included within the purchase cost/proceeds of investment at the point of purchase or sale but for transparency purposes have been added to Investment Management Expenses with a corresponding offset against Profit on Disposal of Investments as recommended by CIPFA.

Transaction costs decreased in 2019/20 largely due to an on-going re-organisation of investment managers and investment assets which commenced in 2018/19.

## N23 Cash

From the 1st April 2010 the Pension Fund has had its own bank account. At 31st March 2020 cash of £17.5m (£8.0m in 2018/19) was invested through the County Council's short-term investment procedures. During the year the average investment balance was £22.6m (£12.3m 2018/19) earning interest of £159.5k (£65.6k 2018/19).

## N24 Current & Long Term Assets

Current Assets	2018/19 £000	2019/20 £000
Contributions due - Employees	816	942
Contributions due - Employers	3,892	3,866
Sundry debtors	410	471
Payment in advance	256	250
Money due re. transfer of staff to another pension scheme	618	618
	5,992	6,147
Cash balances	8,006	17,539
	13,998	23,686
<b>Long term assets</b>		
Long term debtors	1,058	315

One central government body transferred to another pension fund and the resulting bulk transfer value due was paid over a number of years. The total amount was credited to the Pension Fund and an accrual made for the outstanding amount. The final payment of £618,000 is due to

the Pension Fund within the next twelve months and is, therefore, included within current assets.

It had been agreed that an employer who left the Fund could spread the payment of their deficit over a number of years. The total amount was credited to

the Pension Fund and an accrual made for the outstanding amount. The accrual is rolled forward each year and adjusted for deficit payments made. A payment of £7,200 is due to the Pension Fund within the next twelve months.

## N25 Current Liabilities

	2018/19 £000	2019/20 £000
Benefits payable	-26	-18
Sundry creditors	-2,301	-3,513
	-2,327	-3,531

## N26 Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation (See Note N6), the fund's Actuary also undertakes a valuation of the Pension Fund liabilities on an IAS19 basis every year. These liabilities have been projected using a roll forward approximation from the last triennial valuation as at 31st March 2019. The Present Value of Promised Retirement Benefits at 31st March 2020 includes an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

### Balance Sheet

Year ended	31st March 2019 £m	31st March 2020 £m
Present Value of Promised Retirement Benefits	3,472	3,137



## Net Assets Available for Benefits

Year ended	31st March 2019 £m	31st March 2020 £m
Net Assets	2,379	2,245

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31st March 2020 and 31st March 2019. It is estimated that the impact of the change in financial assumptions to 31st March 2020 is to

decrease the actuarial present value by £303m (18/19 increase of £261m). It is estimated that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £104m (18/19 £0).

## Significant Actuarial Assumptions Used

### Financial assumption:

Year ended	31st March 2019 % pa	31st March 2020 % pa
Pension Increase Rate	2.5	1.9
Salary Increase Rate	2.8	2.2
Discount Rate	2.4	2.3

### Longevity assumption:

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below.

### Longevity assumptions as at 31st March 2020

	Males Years	Females Years
Current Pensioners	21.7	23.9
Future Pensioners**	22.4	25.3

### Longevity assumptions as at 31st March 2019

	Males Years	Females Years
Current Pensioners	22.4	24.6
Future Pensioners**	24.0	26.4

\*\* Future pensioners are assumed to be aged 45 at the latest formal valuation as at 31st March 2019.

### Commutation assumption:

An allowance is included for future retirements to elect to take 35% (35% 2018/19) of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 68% (68% 2018/19) of the maximum tax free cash for post-April 2008 service.

### Sensitivity Analysis:

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the

principal assumptions used to measure the liabilities are set out overleaf:

The principal demographic assumption is the longevity assumption. For sensitivity purposes, the Actuary estimates that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Sensitivity to the assumptions for the year ended 31st March 2020	Approximate % increase to liabilities	Approximate monetary amount
	%	£m
0.5% p.a. increase in the Pension Increase Rate	9	273
0.5% p.a. increase in the Salary Increase Rate	1	28
0.5% p.a. decrease in the Real Discount Rate	10	304

Sensitivity to the assumptions for the year ended 31st March 2019	Approximate % increase to liabilities	Approximate monetary amount
	%	£m
0.5% p.a. increase in the Pension Increase Rate	8	290
0.5% p.a. increase in the Salary Increase Rate	1	50
0.5% p.a. decrease in the Real Discount Rate	10	361

the nature of the investments made and associated risks.

The Fund's investments are held by State Street Global Services, who act as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

### Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical, industry sectors, individual securities, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee as well as appropriate monitoring of market conditions and benchmark analysis.

### Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors

## N27 Nature and Extent of Risks Arising from Financial Instruments

The Gloucestershire Local Government Pension Fund's ("The Fund") objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as securities (equities, bonds), collective investment schemes (or pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments in the financial statements approximates to their fair value.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities i.e. promised benefits payable to members. Therefore the aim of investment risk management is to minimise the risk of an overall reduction on the value of the Fund and to maximise the opportunity for gains

across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

The Fund's investments are managed on behalf of the Fund by the appointed Investment Managers. Each Investment Manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Gloucestershire Local Government Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment mandate and considers and takes advice on

affecting all such instruments in the market.

Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short

are unlimited. The Investment Managers mitigate this price risk through diversification in line with their own investment strategies and mandate guidelines.

### Other Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of return experienced

by each investment portfolio during the year to 31st March 2020. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables remain constant.

Movements in market prices would have increased or decreased the assets, as held by the Fund's custodian, at 31st March 2020 by the amounts shown below:

As at 31st March 2020	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
UK Bonds	308,486	9.80	338,718	278,254
UK Equities	292,751	27.50	373,258	212,244
Overseas Bonds	203,734	9.80	223,700	183,768
Multi National Equities	1,122,661	27.00	1,425,779	819,543
UK Property	185,723	14.20	212,096	159,350
Overseas Property	14,554	14.20	16,621	12,487
Venture Capital/Private Equity/Infrastructure	17,111	28.40	21,971	12,251
Private Debt	64,115	7.20	68,731	59,499
	<b>2,209,135</b>		<b>2,680,874</b>	<b>1,737,396</b>
Total Gloucestershire Fund	<b>2,209,135</b>	<b>16.30%</b>	<b>2,569,224</b>	<b>1,849,046</b>

As at 31st March 2019	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
UK Bonds	303,215	10.50	335,053	271,377
UK Equities	379,046	16.60	441,968	316,124
Overseas Bonds	212,505	10.50	234,818	190,192
Multi National Equities	1,205,394	16.60	1,405,489	1,005,299
UK Property	187,521	14.30	214,337	160,705
Overseas Property	13,608	14.30	15,554	11,662
Venture Capital/Private Equity/Infrastructure	7,249	28.30	9,300	5,198
Private Debt	42,397	5.90	44,898	39,896
	<b>2,350,935</b>		<b>2,701,417</b>	<b>2,000,453</b>
Total Gloucestershire Fund	<b>2,350,935</b>	<b>10.80%</b>	<b>2,604,836</b>	<b>2,097,034</b>

## Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. This risk will affect the value of both fixed interest and index linked securities. The amount of income receivable from cash balances will also be affected by fluctuations in interest rates.

The Funds exposure to interest rate movements, as a result of

the bond portfolio, as at the 31st March 2020 is set out below along with the interest rate sensitivity analysis data.

### Interest Rate Risk Sensitivity Analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. Over the last five years long term yields, as measured by the yield on the FTSE Over 15 Year Gilt Index as at the end of March 2020, have averaged 1.77% (2018/19 2.11%) and moved between a high of 2.76% (3.45% 2018/19) and a low of

0.45% (1.13% 2018/19). As at the end of March 2020 this yield was 0.75% (1.48% 2018/19). Given the high degree of uncertainty over the future economic situation, the Fund's bond manager has advised that it is entirely possible that yields could fluctuate anywhere within this historic range in the next year, or in extreme circumstances outside these boundaries.

The analysis that follows assumes that all other variables, in particular, exchange rates, remain constant and shows the effect in the year on the values of a +/- 100bps (1%) change in interest rates on a time-weighted basis.

Assets exposed to interest rate risk	Carrying amount as at 31st March 2020  £000	Change in the year in the net assets available to pay benefits	
		+100BPS (1% increase) £000	-100BPS (1% decrease) £000
Cash held directly by the Fund	17,539	-	-
Cash and cash equivalents held on behalf of the Fund	12,328	-	-
Bond Portfolio - Fixed Interest Securities excluding cash	516,614	-31,968	31,968
	546,481	-31,968	31,968

Assets exposed to interest rate risk	Carrying amount as at 31st March 2019  £000	Change in the year in the net assets available to pay benefits	
		+100BPS (1% increase) £000	-100BPS (1% decrease) £000
Cash held directly by the Fund	8,006	-	-
Cash and cash equivalents held on behalf of the Fund	11,753	-	-
Bond Portfolio - Fixed Interest Securities excluding cash	520,040	-33,024	33,024
	539,799	-33,024	33,024

## Foreign Currency Risk

Foreign currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on both monetary and non-monetary investments denominated in a currency other than Sterling. For a Sterling based investor, when Sterling weakens, the Sterling value of foreign currency denominated investments rises. As Sterling strengthens, the

Sterling value of foreign currency denominated investment falls. We permit the fixed income portfolio manager, global property manager, developed world passive manager and the global multi asset manager to hedge currency exposures back to Sterling.

## Currency Risk Sensitivity Analysis

Following analysis of historical data, by the Fund's performance measurement service, the likely volatility associated with foreign

exchange rate movements is considered to be 7.4% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.4% strengthening/weakening of the Pound against the various countries in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

2019/20 Currency exposure - Asset Type	Asset value as at 31st March 2020 £000	Change to net assets available to pay benefits	
		£000 +7.4%	£000 -7.4%
UK Equities	3	3	3
Global Equities	877,084	941,988	812,180
Emerging Market Equities	-	-	-
Overseas Private Debt	33,363	35,832	30,894
Venture Capital /Private Equity/ Infrastructure	10,204	10,959	9,449
Cash/Cash equivalents	3,137	3,369	2,905
	<b>923,791</b>	<b>992,151</b>	<b>855,431</b>

2018/19 Currency exposure - Asset Type	Asset value as at 31st March 2019 £000	Change to net assets available to pay benefits	
		£000 +8.8%	£000 -8.8%
UK Equities	-	-	-
Global Equities	815,919	887,720	744,118
Emerging Market Equities	142,739	155,300	130,178
Overseas Private Debt	20,145	21,918	18,372
Venture Capital /Private Equity/ Infrastructure	2,277	2,477	2,077
Cash/Cash equivalents	3,375	3,672	3,078
	<b>984,455</b>	<b>1,071,087</b>	<b>897,823</b>

## Credit Risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the careful selection and monitoring of counterparties including brokers, custodian and

investment managers minimises any credit risk that may occur through the failure to settle transactions in a timely manner. The Fund's contractual exposure to credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default.

The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Bankruptcy or insolvency of the custodian may affect the Fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The Brunel Pension Partnership, on behalf of the Fund, manages the risk by monitoring the credit quality and financial position of the custodian.

Credit risk on over the counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The Fund's bond portfolios have significant credit risk through its underlying investments. This risk is managed through diversification

across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

The Council believes it has managed its exposure to credit risk within an acceptable level and its default experience over the last five financial years is not significantly out of line with the industry.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the Fund's behalf by the Council's Treasury Management Team in line with the Fund's Treasury Management Policy which sets out the permitted counterparties and limits. The Fund invests surplus cash held with the custodian in diversified money market funds.

Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt, AAA rated fixed interest stock issued by Supranational bodies and a restrictive list of equities indices. Cash collateral is not permitted.

Foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts which are primarily banks. The maximum credit exposure on foreign currency contracts is any net profit on forward contracts, should the counterparty fail to meet its obligations to the Fund when it falls due.

The credit risk within the bond portfolios can be analysed using standard industry credit ratings and the analysis as at 31st March 2020 is set out below.

<b>Credit Analysis 31st March 2020</b>	<b>AAA £000</b>	<b>AA £000</b>	<b>A £000</b>	<b>BBB £000</b>	<b>BB £000</b>	<b>B £000</b>	<b>Unrated £000</b>
UK Gilts	-	36,206	-	-	-	-	-
UK Index Linked	-	-	-	-	-	-	-
Overseas Govt Bonds	8,591	-	792	-	-	-	-
Overseas Inflation-linked	-	-	-	-	-	-	-
Corporate Bonds	3,399	22,302	150,966	102,758	-	-	-
High Yield	-	-	-	-	6,348	3,930	683
Emerging Markets	-	-	3,702	-	840	-	-
Mortgage Backed Securities	-	1,984	-	-	-	-	-
Cash/Cash Equivalents/ Currency Forwards	6,818	1	-	-	-	-	-1,611
	<b>18,808</b>	<b>60,493</b>	<b>155,460</b>	<b>102,758</b>	<b>7,188</b>	<b>3,930</b>	<b>-928</b>
% of Fixed Interest Portfolio	5.4	17.4	44.7	29.6	2.1	1.1	-0.3



<b>Credit Analysis 31st March 2019</b>	<b>AAA £000</b>	<b>AA £000</b>	<b>A £000</b>	<b>BBB £000</b>	<b>BB £000</b>	<b>B £000</b>	<b>Unrated £000</b>
UK Gilts	-	46,945	-	-	-	-	-
UK Index Linked	-	-	-	-	-	-	-
Overseas Govt Bonds	933	-	-	-	-	-	-
Overseas Inflation-linked	-	-	-	-	-	-	-
Corporate Bonds	2,988	16,689	136,721	80,529	153	-	-
High Yield	-	-	-	-	5,063	3,559	150
Emerging Markets	-	-	1,484	-	1,228	-	-
Mortgage Backed Securities	-	4,724	7,430	22,755	378	-	-
Supra/Sov/Local Govts	-	-	-	-	-	-	-
Cash/Cash Equivalents/ Currency Forwards	8,101	-	595	2,611	-	-	-
	<b>12,022</b>	<b>68,358</b>	<b>146,230</b>	<b>105,895</b>	<b>6,822</b>	<b>3,559</b>	<b>150</b>
% of Fixed Interest Portfolio	3.5	19.9	42.5	30.8	2.0	1.0	0.04

### Treasury Management Year End Cash Balances

The management of Pension Fund cash balances not held by the Custodian is delegated to Gloucestershire County Council's Treasury Management team to manage in accordance with their Treasury Management Strategy, which reflects the CIPFA Code of Practice on Treasury Management in Public Services. Pension Fund cash is invested separately from Gloucestershire County Council monies.

The Fund's cash holding under its treasury management arrangements at 31st March 2020 is shown below:

<b>Account Name</b>	<b>Rating*</b>	<b>Balances as at 31st March 2019 £000</b>	<b>Rating*</b>	<b>Balances as at 31st March 2020 £000</b>
Aberdeen Standard Liquidity Fund	AAAm	757	AAAm	<b>5,857</b>
Federated Short Term Sterling Prime Fund	AAAm	6,209	AAAm	-
HSBC Instant Access	AA-	861	A-1+	<b>7,176</b>
HSBC Current Account	AA-	179	A-1+	<b>569</b>
Handelsbanken		-	A-1+	<b>3,937</b>
<b>Total</b>		<b>8,006</b>		<b>17,539</b>

\* Ratings quoted are all Standard and Poors as at 31st March 2020 and 2019

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Pension Fund has not experienced any actual defaults in recent years and the current practice is to obtain a guarantee before admitting new

employers so that all pension obligations are covered in the event of that employer facing financial difficulties. The amount of contributions due as at 31st March 2020 was £4,808k (2018/19 £4,708k) and as at 24th June 2020 £17k remained outstanding.

### Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet

its commitments. A substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the Fund are the benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments. The Fund maintains a cash balance to meet working

requirements and has immediate access to its cash holdings.

### Refinancing Risk

Refinancing risk relates to the Fund being required to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. Refinancing risk within the Bond portfolio is mitigated through credit and liquidity analysis of all investments and diversification by issuer and maturity. The CBRE property fund managed on behalf of the Pension Fund is not leveraged or subject to refinancing risk. However, the underlying investments within this portfolio are leveraged and so may be subject

to refinancing risk. This risk is mitigated by covenants written into the Fund documentation. There are no other financial instruments that have refinancing risk as part of its treasury management and investment strategies.

## N28 Fair Value Hierarchy

### Basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Futures and options in UK bonds	Level 1	Published exchange prices at the year end.	Not required	Not required
Quoted Bonds	Level 2	Fixed interest securities are valued at a market value based on current yields.	Source of pricing, valuation methodology documentation	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end.	Exchange rate risks	Not required
Pooled investments	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV based pricing set on a forward pricing basis and daily prices published.	Not required
Property pooled investments	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV based pricing set on a forward pricing basis.	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Quoted Bonds	Level 3	Fixed interest securities are valued at a market value based on current yields.	Source of pricing, valuation methodology documentation, trade comparison review.	Low volume of trades in trade comparison review cohort.
Property Pooled investments	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published.	NAV-based pricing set on a forward pricing basis.	Valuations could be affected by changes in the structure of the holdings such as changing from a closed ended fund to an open ended fund.
Private equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012).	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts.
Private Debt	Level 3	Fair value is determined by the following factors: enterprise value of a portfolio company; the nature and realisable value of any collateral; the portfolio company's ability to make payments and its earnings; discounted cash flows; market environment and changes in the interest rate environment.	Initial recognition cost, Principal repayments, effective interest method, Impairment reductions.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts.
Infrastructure Funds	Level 3	Direct investments: Independent valuation performed using discounted cash flow methodology in accordance with international private equity valuation guidelines.	Future free cash flows from underlying investments. Cost of capital of underlying investments.	Valuations could be affected by material events occurring after the preparation of the independent reports, and by changes to expected cash flows.

## Sensitivity of assets valued at level 3

Having consulted with independent advisors, the Fund has determined that the valuation methods described opposite are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31st March 2020.

2019/20	Assessed valuation range (+/-)	Value at 31st March 2020 £000	Value on Increase £000	Value on Decrease £000
UK Property Pooled Funds	14.2%	170,116	194,272	145,960
Venture Capital/Private Equity/ Infrastructure	28.4%	17,111	21,971	12,251
UK Corporate Bonds	9.8%	17,699	19,434	15,965
Overseas Private Debt	7.2%	33,363	35,765	30,961
UK Private Debt	7.2%	30,752	32,966	28,538
Total		<b>269,041</b>	<b>304,408</b>	<b>233,675</b>

2018/19	Assessed valuation range (+/-)	Value at 31st March 2019 £000	Value on Increase £000	Value on Decrease £000
UK Property Pooled Funds	14%	164,487	187,515	141,458
Venture Capital/Private Equity/ Infrastructure	28%	7,249	9,279	5,219
UK Corporate Bonds	11%	3,512	3,898	3,126
Overseas Private Debt	6%	20,145	21,354	18,936
UK Private Debt	6%	22,252	23,587	20,917
Total		<b>217,645</b>	<b>245,633</b>	<b>189,656</b>

## Fair Value Hierarchy

The Fund is required to classify its investments using a fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. Fair value is the value at which the investments could be realised within a reasonable timeframe. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur. The fair value hierarchy has the following levels:

- Level 1 – Unadjusted quoted prices in an active market for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Products classified as Level 1 comprise quoted equities, quoted fixed securities and quoted index linked securities.
- Level 2 – Inputs other than quoted market prices under Level 1, for example, when an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.
- Level 3 – At least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31st March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	2,426	1,950,170	269,041	2,221,637
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-2,011	-	-	-2,011
Investment manager cash and accruals				4,039
<b>Net Investment Assets</b>	<b>415</b>	<b>1,950,170</b>	<b>269,041</b>	<b>2,223,665</b>
Brunel Pension Partnership				427
Investment Debtors/Creditors*				20,471
<b>Total Net Investments Assets</b>	<b>415</b>	<b>1,950,170</b>	<b>269,041</b>	<b>2,244,563</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31st March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	773	2,142,475	217,645	2,360,893
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-1,315	-	-	-1,315
Investment manager cash and accruals				6,015
<b>Net Investment Assets</b>	<b>-542</b>	<b>2,142,475</b>	<b>217,645</b>	<b>2,365,593</b>
Brunel Pension Partnership				395
Investment Debtors/Creditors*				12,730
<b>Total Net Investments Assets</b>	<b>-542</b>	<b>2,142,475</b>	<b>217,645</b>	<b>2,378,718</b>

\* Investment debtors and creditors have been added to this table to reflect the total net assets of the Fund.

## Transfers between Levels 1 and 2

There has been no movement between levels 1 & 2

## Reconciliation of Fair Value Measurements within Level 3

2019/20	UK Property Pooled Funds £000	Private Equity £000	Overseas Private Debt £000	UK Private Debt £000	UK Corporate Bonds £000	Total £000
Market Value 31st March 2019	164,487	7,249	20,145	22,252	3,512	217,645
Transfers into Level 3	6,135	-	-	-	15,451	21,586
Transfers out of Level 3	-	-	-	-	-	-
Purchases during the year and derivative payments	4,277	8,938	13,797	16,737	-	43,749
Sales during the year and derivative receipts	-	-793	-2,442	-7,775	-1,238	-12,248
Unrealised gains/(losses)	-4,783	1,752	-579	-462	-59	-4,131
Realised gains/(losses)	-	-35	2,442	-	33	2,440
<b>Market Value 31st March 2020</b>	<b>170,116</b>	<b>17,111</b>	<b>33,363</b>	<b>30,752</b>	<b>17,699</b>	<b>269,041</b>

2018/19	UK Property Pooled Funds £000	Private Equity £000	Overseas Private Debt £000	UK Private Debt £000	UK Corporate Bonds £000	Total £000
Market Value 31st March 2018	153,401	5,624	10,693	6,166	1,012	176,896
Transfers into Level 3	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-
Purchases during the year and derivative payments	6,728	2,313	8,771	20,409	2,557	40,778
Sales during the year and derivative receipts	-	-797	-	-4,270	-47	-5,114
Unrealised gains/(losses)	4,358	109	681	-53	-10	5,085
Realised gains/(losses)	-	-	-	-	-	-
<b>Market Value 31st March 2019</b>	<b>164,487</b>	<b>7,249</b>	<b>20,145</b>	<b>22,252</b>	<b>3,512</b>	<b>217,645</b>



## N29 Financial Instrument Disclosure

2019/20	Fair value through profit & loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
<b>Financial assets</b>			
Bonds	331,206	-	-
Pooled investments	1,681,377	-	-
Property Unit Trusts	192,062	-	-
Private equity	4,491	-	-
Brunel Pension Partnership	427	-	-
Derivative contracts	2,904	-	-
Cash	-	29,867	-
Other investment balances	-	4,352	-
Debtors	-	1,339	-
	2,212,467	35,558	-
<b>Financial liabilities</b>			
Derivative contracts	-4,108	-	-
Other investment balances	-	-946	-
Creditors	-	-	-3,513
Borrowings	-	-	-
	-4,108	-946	-3,513
<b>Total</b>	<b>2,208,359</b>	<b>34,612</b>	<b>-3,513</b>

2018/19	Fair value through profit & loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
<b>Financial assets</b>			
Bonds	323,927	-	-
Pooled investments	1,829,558	-	-
Property Unit Trusts	192,478	-	-
Private equity	4,972	-	-
Brunel Pension Partnership	395	-	-
Derivative contracts	1,297	-	-
Cash	-	19,759	-
Other investment balances	-	4,450	-
Debtors	-	1,902	-
	2,352,627	26,111	-
<b>Financial liabilities</b>			
Derivative contracts	-1,429	-	-
Other investment balances	-	-1,412	-
Creditors	-	-	-2,301
Borrowings	-	-	-
	-1,429	-1,412	-2,301
<b>Total</b>	<b>2,351,198</b>	<b>24,699</b>	<b>-2,301</b>

## N29(a) Net gains and losses on financial instruments

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## N30 Bulk Transfers in and out of the Pension Fund

### Transfers to or from other pension funds

During 2019/20 there were no bulk transfers to or from other pension funds.

## N31 Accounting Standards that have been issued but have not yet been adopted

The Code requires consideration of the impact of standards that have been issued but not yet adopted. This is to enable users to evaluate the risk of these new standards on the Pension Fund's current financial position.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures: The amendments clarify that IFRS9 applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. This will not have an impact on the Pension Fund and is therefore considered to be immaterial.

	2018/19 £000	2019/20 £000
<b>Financial assets</b>		
Fair value through profit and loss	90,864	-168,409
Amortised cost - realised gains on de-recognition of assets	-	-
Amortised cost - unrealised gains	-	-
<b>Financial liabilities</b>		
Fair value through profit and loss	-	-
Amortised cost - realised losses on de-recognition of assets	-	-
Amortised cost - unrealised losses	-	-
	90,864	-168,409

## N32 Taxation where lifetime or annual allowances are exceeded

Where a member's benefit entitlement exceeds the United Kingdom Inland Revenue tax limits (Lifetime Allowance or the Annual Allowance), the member is liable for taxation. This tax can be paid by the member or has to be paid by the Pension Fund on behalf of the member in exchange for a reduction in benefit entitlement. The Pension Fund has paid £74k on behalf of members during 2019/20 (£81k 2018/19). Any lifetime or annual allowance tax paid on behalf of members is recovered from their future pension payments. No accruals are made for the recovery of this tax element on the grounds of materiality and the very long term nature of its recovery.

## N33 Events after the reporting date

Since December 2019, the spread of Covid-19 has severely

impacted many local economies around the globe resulting in an economic slowdown. Global stock markets have also experienced great volatility and significant weakening and there is a potential for a reduction in the Pension Fund's future income and investment returns and an increase in expenditure in the form of additional costs.

It is not possible to reliably estimate the duration and severity of these consequences and their impact on the financial position and performance of the Pension Fund. As investments are valued at fair value and any profits and losses only realised upon sale, it has been determined that the Covid-19 pandemic should be treated as a non-adjusting event and the financial position for the year ended 31st March 2020 has not been adjusted.

# Asset Pools

## Investment Pooling – Brunel Pension Partnership

In 2015 the Department of Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money, and
- An improved capacity and capability to invest in infrastructure

This has led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with individual pension funds.

As a result of the investment pooling agenda, the

Gloucestershire Fund joined with nine other LGPS administering authorities to set up the Brunel Pension Partnership (BPP). Gloucestershire County Council approved the business case for BPP in December 2016, based on estimated potential fee savings of £550 million over a 20 year period across the ten funds, of which Gloucestershire's share was estimated to be £10.8 million. This estimated fee saving is much lower than for the majority of Funds in the BPP, due to the fact that the investment management fees being paid by the Gloucestershire Fund were generally lower than those paid by the other Funds in the BPP.

The project will see initial net costs in the early years primarily due to transition costs, but will break even in the future as fee savings are delivered. With regard to the Gloucestershire Fund the original business case forecasts that the Fund would break even by 2029.

## Governance Arrangements of the pool

The governance arrangement in place between the pool and the

ten funds involves two types of representation:

1. Oversight Board made up of one representative from each of the fund Committee's and two member representative observers
2. Client Group made up of senior officers from each of the ten funds

Further details of the role and involvement of administering authorities in the governance arrangements of the pool can be found within the BPP annual report for the year ended 30th September 2019. A link to this document can be found here:

[https://www.brunelpensionpartnership.org/wp-content/uploads/2020/02/Brunel\\_Pension\\_Partnership\\_Annual\\_Report.pdf](https://www.brunelpensionpartnership.org/wp-content/uploads/2020/02/Brunel_Pension_Partnership_Annual_Report.pdf)

## Pool set up costs and savings

The expected costs and savings for the Gloucestershire Pension Fund, as per the original business case approved in December 2016, and then submitted to Government, are set out in the table below.

## Gloucestershire Pension Fund Expected Costs and Savings from Pooling (As per Business Case Submissions)

	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	2026 to 2036	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Set up costs	117	1,034	-	-	-	-	-	-	-	-	-	1,151
Ongoing Brunel costs	-	-	413	535	552	570	588	607	627	647	7,742	12,281
Client savings	-	-	(64)	(66)	(68)	(70)	(72)	(74)	(76)	(78)	(924)	(1,492)
Transition costs	-	-	1,327	2,652	13	-	-	-	-	-	-	3,992
Fee savings	-	-	(171)	(557)	(898)	(965)	(1,037)	(1,111)	(1,191)	(1,274)	(19,514)	(26,718)
<b>Net costs / (realised savings)</b>	<b>117</b>	<b>1,034</b>	<b>1,505</b>	<b>2,564</b>	<b>(401)</b>	<b>(465)</b>	<b>(521)</b>	<b>(578)</b>	<b>(640)</b>	<b>(705)</b>	<b>(12,696)</b>	<b>(10,786)</b>

Following approval of the business case, the BPP Ltd was established in July 2017, as a company wholly owned by the Administering Authorities (in equal shares) that participate in the pool. The company is authorised by the Financial Conduct Authority (FCA). It is responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds' assets

within defined outcome focused investment portfolios. In particular, it researches and selects the external managers or pooled funds needed to meet the investment objective of each portfolio.

Now that BPP is operational, the financial performance of the pool will be monitored to ensure that BPP is delivering on the key objectives of investment pooling.

This includes reporting of the costs associated with the appointment and management of the pool company including set up costs, investment management expenses and the oversight and monitoring of BPP by the client funds. The set up and transition costs incurred to date are set out in the following table.

## BPP Pool Set Up Costs

Gloucestershire 2019/20	Direct £000	Indirect £000	Total £000	Cumulative £000
<b>Set up costs</b>				
Recruitment	-	-	-	18
Legal	-	-	-	133
Consulting, advisory & procurement	-	-	-	82
Other support costs e.g IT, accommodation	-	-	-	0
Share purchase / subscription costs	-	-	-	840
Other Working Capital Provided e.g. loans	-	-	-	-
Staff costs	-	-	-	-
<b>Total set up costs</b>	-	-	-	<b>1,073</b>
<b>Transition costs</b>				
Transition fee	-	140	140	140
Tax	-	339	339	894
Other transition costs	-	1,996	1,996	3,624
<b>Total transition costs</b>	-	<b>2,475</b>	<b>2,475</b>	<b>4,658</b>

The Gloucestershire Fund transitioned its first assets to BPP in July 2018, with investments being made to the following portfolio's in 2018/19:

- Global Developed Passive Equities
- Smart Beta Passive Equities
- Low Carbon Passive Equities
- Active UK Equities

During 2019/20 transitions continued, with allocations being made to the following portfolio's during the year:

- Active Emerging Market Equities
- Active High Alpha Equities
- Private Markets: Infrastructure
- Private Markets: Private Equity

The investment fee savings achieved by the Gloucestershire Fund in relation to all of these portfolio's are set out in the table overleaf.

## Investment Fee Savings from Pooling

Portfolio	Value in Original Business Case (31st March 2016) £000	Value at 31st March 2020 £000	Price Variance 2019/20 £000	Quantity Variance 2019/20 £000	Total Saving/ (Cost) 2019/20 £000	Price Variance Cumulative to date £000	Quantity Variance Cumulative to date £000	Total Saving/ (Cost) Cumulative to date £000
World Developed Equity Passive	301,562	232,386	73,177	7,466	80,643	124,670	18,745	143,415
Smart Beta Passive Equities	-	196,325	84,896	-180,925	-96,029	141,332	-300,707	-159,375
Low Carbon Passive Equities	-	48,467	8,227	-19,197	-10,970	13,615	-31,769	-18,154
Active UK Equities	318,696	292,751	569,742	-178,903	390,839	750,901	-220,419	530,482
Active Emerging Markets Equities	-	120,663	75,549	-428,856	-353,307	75,549	-428,856	-353,307
Active High Alpha Equities	-	381,851	442,907	-1,030,747	-587,840	442,907	-1,030,747	-587,840
Private Markets Infrastructure	-	37,113	34,839	-154,263	-119,424	34,839	-154,263	-119,424
Private Markets Private Equity	-	6,355	20,331	-242,825	-222,494	20,331	-242,825	-222,494
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,309,668</b>	<b>-2,228,250</b>	<b>-918,582</b>	<b>1,604,144</b>	<b>-2,390,841</b>	<b>-786,697</b>

This analysis shows the fee savings achieved for the Gloucestershire Fund in relation to the assets that have transitioned to the BPP portfolios. Savings figures for 2019/20 and cumulative to date figures covering 2018/19 to 2019/20 are provided.

The price variance savings are the fee savings achieved by the Gloucestershire Fund, based on the value of investments in each portfolio. These savings are calculated based on the fee percentages being paid by the Gloucestershire Fund prior to pooling, compared with the fee percentages achieved by the BPP. Where fee reductions were granted by one of the Investment Managers due to pooling, slightly in advance of the formulation of the business case, the benefits of these fee reductions are included within the table.

Where the Gloucestershire Fund was not invested in some of the

mandates at 31st March 2016, the fee savings were estimated by comparing the fees payable under BPP, with the average of fees paid, pre BPP, by other Funds joining the Brunel Pension Partnership, who were invested in these mandates at 31st March 2016.

The calculated fee savings for all of the Funds within the BPP also take account of any performance fees that were in place with investment managers prior to pooling, regardless of the fact as to whether the performance achieved under these mandates was sufficient to require the payment of these performance fees. This is the position regarding the UK Equities mandate relating to the Gloucestershire Fund, where a performance fee was in place prior to pooling. Because of the actual performance achieved by this manager the performance fee was not paid, hence the saving shown in relation to this mandate is a potential cost avoidance

saving, rather than a cash saving, which will be achieved under the BPP mandate if it delivers against its performance target, because a performance fee is no longer payable under the BPP mandate.

The fee savings achieved (the price variance) feed into the analysis of costs and savings set out in the table below. The budget figures are those that were included in the original business case.

The quantity variance is purely a technical variance which CIPFA requires funds to publish. It is calculated by looking at the Assets under Management (AUM) at 31st March 2016 for each portfolio, less the AUM at the end of 2019/20, multiplied by the old fee rate.

However, because the Gloucestershire Fund, like the majority of other Funds, did not have asset allocations in many of the portfolios that the Fund now invests in under the new

pooling arrangements, the quantity variances are significantly inflated since the mode of calculation

compares a zero value in 2016 with the AUM figure at the end of 2019/20.

## Expected Costs compared to Actual Costs / Savings to Date

	2018/19				2019/20			
	Budget		Actual		Budget		Actual	
	In year	Cumulative to date	In year	Cumulative to date	In year	Cumulative to date	In year	Cumulative to date
	£000	£000	£000	£000	£000	£000	£000	£000
Set up costs	-	1,151	-	1,072	-	1,151	-	1,072
Ongoing Brunel costs	413	413	660	660	535	948	1,059	1,719
Clients savings	(64)	(64)	-	-	(66)	(129)	-	-
Transition costs	1,327	1,327	2,183	2,183	2,652	3,979	2,475	4,658
Fee savings	(171)	(171)	(294)	(294)	(557)	(728)	(1,310)	(1,604)
<b>Net costs/(realised savings)</b>	<b>1,505</b>	<b>2,656</b>	<b>2,549</b>	<b>3,621</b>	<b>2,564</b>	<b>5,220</b>	<b>2,224</b>	<b>5,845</b>

The most significant variances from the original business case can be summarised as follows:

Ongoing BPP costs:  
Cumulative budget to date:  
£0.948m

Cumulative actual to date:  
£1.719m

It is now accepted that the estimated budget for ongoing BPP costs, set out in the original business case, was understated, and is insufficient to facilitate the effective delivery of investment services to the ten Funds within the BPP. A detailed examination of the budget was undertaken in 2018/19, which resulted in a budget increase for 2019/20, agreed by all Funds, to facilitate increased staffing and other investments necessary to deliver the transition plan and ongoing savings.

Transition costs:  
Cumulative budget to date:  
£3.979m

Cumulative actual to date:  
£4.658m

The actual transition costs in 2019/20 were slightly below the budgeted level, with all of the increased actual costs relating to the UK Equities mandate which transitioned during 2018/19.

The UK equities transition was forecast to cost the equivalent of 14 basis points in the original business case, but actually cost the equivalent of 54.3 basis points. The key reasons for the costs exceeding the original budget were:

1. The budget for transition costs relating to the UK equity tender in the original business case did not include stamp duty payable. This equated to the equivalent of 12.6 basis points, or £472,000 in relation to the Gloucestershire Fund.
2. The budget included in the original business case could not be based on specific asset holdings, and hence used estimated assets under management based on original client intentions. The assumptions behind the budget figure assumed a materially more

liquid portfolio than the one that was actually transitioned, resulting in higher costs than anticipated when the original business case was formulated, and could not take account of specific portfolio holdings, one of which experienced a significant downturn in value over the transition period.

Fee Savings:  
Cumulative budget to date:  
£0.728m

Cumulative actual to date:  
£1.604m

Fee savings (including cost avoidance) are higher than the budgeted figure as a result of higher asset values due to the higher than anticipated investment returns over the last three years to 2019/20, and lower fees levels achieved by the BPP.

## Implementation and application of the Funding Strategy Statement

The Funding Strategy Statement (FSS) focuses on how employer liabilities are measured, the pace at



which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS is in essence a summary of the Fund's approach to funding its liabilities. The FSS was reviewed as part of the Triennial Fund Valuation process and employers consulted prior to the current FSS being finalised. The full version of the FSS can be found on pages 109 to 135.

A key challenge for the Administering Authority is to balance the need for stable affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit in order to improve the stability of employer contributions. These include, where circumstances permit, capping of employer contribution rate changes within a pre-determined range ("stabilisation"), the use of extended deficit recovery periods,

the phasing in of contribution rises or reductions, the pooling of contributions amongst employers with similar characteristics and the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case. Section 3.3 of the FSS on pages 114 to 120 gives a summary of how the main funding policies differ for different types of employer.

New eligible admitted bodies, those employers who do not have an automatic right to join the Pension Fund, are only admitted into the Fund if they have a guarantor to cover any pension obligations which are not met. They may also be required to have an indemnity bond or security in place to cover any potential risks and these are reviewed annually. Admitted bodies do not have the same freedoms as scheduled bodies in how they fund their liabilities and these are set out again in Section 3.3 of the FSS on pages 114 to 120.

# Funding Strategy Statement

The Funding Strategy Statement shown below is the current version of this statement.

## 1. Introduction

### 1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Gloucestershire County Council Pension Fund ("the Fund"), which is administered by Gloucestershire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 17th February 2020.

### 1.2 What is the Gloucestershire County Council Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Gloucestershire County Council Pension Fund, in effect the LGPS for the Gloucestershire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and

- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

### 1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and

- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see Section 4).

### 1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you

cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;

- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

### 1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/ dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers

and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

### 1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact the Pensions Team in the first instance at [peninv@gloucestershire.gov.uk](mailto:peninv@gloucestershire.gov.uk) or on telephone number 01452 328949.

## 2. Basic funding issues

(More detailed and extensive descriptions are given in Appendix D).

### 2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a

monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### 2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These

employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies' membership in LGPS Funds.

**Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which

instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

### 2.4 How does the calculated contribution rate vary for different employers?

All three steps below are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.



Costs of ill-health early retirements are covered in 3.7 and 3.8.

## 2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term, high level risk measures, whereas contribution-setting is a longer term issue.

## 2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware

that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and

kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

## **2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?**

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of

the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However, it is expected that benefit changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities is unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31st August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to reflect the increase in risk through the likelihood of success parameters which are used in the assessment of employer contribution rates at the 2019 valuation.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

## **2.8 When will the next actuarial valuation be?**

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a

four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1st April 2020 to 31st March 2023 as part of the 2019 valuation of the Fund.

## **3. Calculating contributions for individual Employers**

### **3.1 General comments**

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this section.

The Administering Authority recognises that there may occasionally be particular



circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

### 3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;

- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits

payable to their employees and ex-employees) is not affected by the pace of paying contributions;

- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Below and overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

### 3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	Local Authorities, Police, Fire	Colleges & Universities	Academies	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis	Gilts exit basis - see Note (a)	Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	17 years	14 years	17 years	17 years	17 years but aiming for future working lifetime	As per the letting employer
Secondary rate – Note (d)	Monetary amount	Monetary amount	% of payroll	Monetary amount	Monetary amount	% of payroll or monetary amount

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	Local Authorities, Police, Fire	Colleges & Universities	Academies	Open to new entrants	Closed to new entrants	(all)
<b>Treatment of surplus</b>	Covered by stabilisation arrangement	Contributions kept at Primary rate	Contributions kept at Primary rate	Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Administering Authority		For employers due to cease beyond the next formal valuation, the contributions have been set to the minimum of the current rate and the calculated primary rate.  For employers due to cease prior to 31 March 2023, reductions to contributions are permitted
<b>Likelihood of achieving target - Note (e)</b>	70%	70% or 75% depending on evidence of financial strength	75%	80% for Community Admission Bodies, 70% for Designating Employers	80%	66%
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement	3 years	3 years for increases and decreases, subject to a maximum increase / decrease of 2% p.a.	3 years	3 years	None
<b>Review of rates – Note (f)</b>	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
<b>New employer</b>	n/a	n/a	Note (g)	Note (h)		Notes (h) and (j)
<b>Cessation of participation: exit debt/credit payable</b>	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case the low risk exit basis would apply. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details

\* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

### **Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)**

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

### **Note (b) (Stabilisation)**

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer

contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), the following employers will be permitted to stabilise contribution increases and decreases subject to previously agreed limits:

- Gloucestershire County Council and Schools
- Cotswold District Council
- Forest of Dean District Council
- Gloucester City Council
- Stroud District Council
- Tewkesbury Borough Council

- Gloucestershire Police

The stabilisation criteria and limits will be reviewed at the next formal valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

### **Note (c) (Maximum time horizon)**

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

For community admission bodies that are closed to new entrants, the time horizon has been extended beyond the future working lifetime to maintain contributions at a stable level. The Fund would not permit an extension to the time horizon that resulted in a reduction in contributions unless the employer was in surplus on the gilts exit basis.

### **Note (d) (Secondary rate)**

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will often be set as a monetary amount. However, where a percentage of salaries approach is used, the Administering Authority reserves the right to amend these rates between formal valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or

- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

### **Note (e) (Likelihood of achieving funding target)**

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers;
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

### **Note (f) (Regular Reviews)**

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered

employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

### **Note (g) (New Academy Conversions)**

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, with those of the other academies in the MAT;
- The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to full fund deferred and pensioner

members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;

v. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iii) and (iv) above will be reconsidered at each valuation.

### **Note (h) (New Admission Bodies)**

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;



- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

#### Transferee Admission Bodies:

For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

#### Community Admission Bodies:

The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

### Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set

up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular, there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

#### i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

#### ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

#### iii) Fixed contribution rate agreed

Under this option the contractor

pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks “pass through” to the letting employer.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) opposite;
- redundancy and early retirement decisions.

### Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB

recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);

- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider the extent of any surplus, the proportion of surplus arising as a result of the Admission Body's employer contributions, any representations (such as risk sharing agreements or guarantees) made by the Admission Body and any employer providing a guarantee to the Admission Body and any other factors the Administering Authority deem relevant. The Fund's Exit Credit Policy can be found on the Gloucestershire Pension Fund

Website, along with this Funding Strategy Statement. This policy will only become operational when it has been agreed by the Pension Committee at the next meeting of the Committee scheduled for September 2020. Hence no surplus payments will be made until the matter has been considered by the Pension Committee.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a [x%] loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will

therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in Appendix E;

c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place



for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt.

This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the “gilts exit basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

### 3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund

are as follows:

- Town and Parish Councils (as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as deaths in service).
- LEA schools are generally pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Admission Bodies may be pooled with the letting employer or other associated Local Authorities, provided all parties (particularly the letting employer(s) or Local Authorities) agree.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

On exit from a pool, Town and Parish Councils, and LEA schools converting to academies, will normally be attributed assets on a pro-rata basis measuring the pool's funding position at that time. This differs from the alternative approach (in effect applied to TABs ceasing their contract) which

would be to assess the individual employer's calculated asset share. The reason for this difference in approach is the long history of Town and Parish Councils and LEA schools paying pooled rates regardless of their own calculated asset share, and also to ensure that any orphan liabilities are accounted for.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

### 3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;

- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

### 3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. The exception to this rule are statutory bodies with tax raising powers, where, depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years. If this is agreed, interest will be charged, using factors provided by the actuary. In any event the spread period cannot exceed the period to the member's normal retirement date if this is shorter than 3 years.

### 3.7 Ill health early retirement costs

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay, and are required to be paid to the Fund immediately or, in the case of tax raising bodies, over a three year period if

requested by the employer.

### 3.8 Ill health risk management

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

To mitigate this risk, the Fund has agreed to implement new procedures with effect from 1st April 2020, under which all Academy Schools, Town and Parish Council's, Admitted Bodies with Closed Admission Agreements and Admitted Bodies without a guarantor will be required to be automatically covered by an ill health pension strain insurance policy organised by the Fund. This cost of this cover is built into the employer contribution rates set for the financial years 2020/21 to 2022/23.

All other employers will also automatically be covered by the ill health pension strain insurance policy organised by the Fund, unless they formally choose to opt out of such cover by making a risk based decision in accordance with the detailed procedures issued to all employers. The cost of this cover is built into the employer contribution rates set for the financial years 2020/21 to 2022/23.

Where an employer formally opts out of the cover their employer contributions will remain unchanged, but will include a risk based ill health allowance. The standard approach of monitoring ill-health strain costs will apply for these employers where, they will be asked to pay for any ill-health strains in excess of their allowance. Where ill health pension strain costs do not exceed the allowances allocated to employers who opt out of the pension strain insurance cover, the unused allowance will be added to the employers assets within the Fund.

### 3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.
- In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### 3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser

of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;

- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

### 3.11 Excess salary awards

The Fund Actuary makes assumptions regarding future pay growth applying to the pre-1st April 2014 accrual of benefit of current active members. Should actual pay rises exceed this assumption then the employer's liabilities will increase, and this increase could be very marked as pay growth immediately affects all benefits accrued before April 2014.

## 4. Funding strategy and links to investment strategy

### 4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### 4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

### 4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the assessments at formal valuations – there is the scope

for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings, and also to employers via e-mail, Employers Forums and its Annual General Meeting.

## 5. Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### 5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### 5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the

contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;

2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;

3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and

4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

## > Appendix A Regulatory framework

### A1 Why does the Fund need a FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

- “to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer contribution**

**rates as possible;** and

- to take a **prudent longer-term view** of funding those liabilities.”

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy

(CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.



## A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in November 2019 for comment;
- b) Comments were requested within 20 days;
- c) Following the end of the consultation period the FSS was submitted to, and agreed by the Pension Committee at its February 2020 meeting, updated where required and then published, in April 2020.

## A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at [www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments)
- A copy sent by e-mail to each participating employer in the Fund;
- A copy sent to employee/pensioner representatives;
- A full copy linked from the annual report and accounts of the Fund;
- Copies sent to investment advisers;
- Copies made available on request.

## A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as

appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pension Committee and would be included in the relevant Committee Meeting minutes.

## A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund’s approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund

These documents can be found on the web at [www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments)

## > Appendix B Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

### B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with

the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;

7. communicate appropriately with employers so that they fully understand their obligations to the Fund;

8. take appropriate measures to safeguard the Fund against the consequences of employer default;

9. manage the valuation process in consultation with the Fund's actuary;

10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

11. prepare and maintain a FSS and a ISS, after consultation;

12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and

13. monitor all aspects of the Fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

## **B2 The Individual Employer should:-**

1. deduct contributions from employees' pay correctly;

2. pay all contributions, including their own as determined by the actuary, promptly by the due date;

3. have a policy and exercise discretions within the regulatory framework;

4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

## **B3 The Fund Actuary should:-**

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

6. advise on the termination of employers' participation in the Fund; and

7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

## **B4 Other Parties:-**

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;

2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;

3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;

4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.



## > Appendix C

### Key risks and controls

#### C1 Types of risk

The Administering Authority has an active risk management

programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

#### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure four key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	<p>An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.</p>
Orphaned employers give rise to added costs for the Fund.	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>
Effect of possible asset underperformance as a result of climate change.	<p>The Fund is working closely with the Brunel Pension Partnership to ensure that climate change risks are actively considered.</p>

### C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>All high risk employers are covered by an ill health insurance policy organised by the Fund. All other employers are also covered by this policy unless they formally opt out of these arrangements following the procedures set out in section 3.8 above.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

## C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known.</p> <p>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.</p>
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

## C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the Rates and Adjustments certificate to increase an employer's contributions between triennial valuations.</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>

## C5 Governance risks (continued)

Risk	Summary of Control Mechanisms
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> <li>◦ Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</li> <li>◦ Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</li> <li>◦ Vetting prospective employers before admission.</li> <li>◦ Where permitted under the regulations requiring a bond to protect the Fund from various risks.</li> <li>◦ Requiring new Community Admission Bodies to have a guarantor.</li> <li>◦ Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</li> <li>◦ Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</li> </ul>
An employer ceasing to exist resulting in an exit credit being payable	<p>The Administering Authority regularly monitors admission bodies coming up to cessation</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</p>

## > Appendix D

### The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See

Appendix E for more details of what assumptions we make to determine that funding target;

- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over

that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

#### **D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?**

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the “Primary contribution rate” (see D2 overleaf); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the “Secondary contribution rate” (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer’s assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

## **D2 How is the Primary contribution rate calculated?**

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years’ accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high likelihood, as set by the Fund’s strategy for the category of employer (see 3.3 Note (e) for further details).

\* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the “Economic Scenario Service”) developed by the Fund’s actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

## **D3 How is the Secondary contribution rate calculated?**

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer’s funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 opposite)
2. at the end of the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high likelihood, as set by the Fund’s

strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller (the “Economic Scenario Service”) developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (at the end of the time horizon) is equal to the required likelihood.

## **D4 What affects a given employer’s valuation results?**

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer’s liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;



9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or

10. differences in the required likelihood of achieving the funding target.

### **D5 How is each employer's asset share calculated?**

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1. A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset

value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31st March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary

"HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

### **D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?**

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

## **> Appendix E Actuarial assumptions**

### **E1 What are the actuarial assumptions used to calculate employer contribution rates?**

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include

life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future

under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the

employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

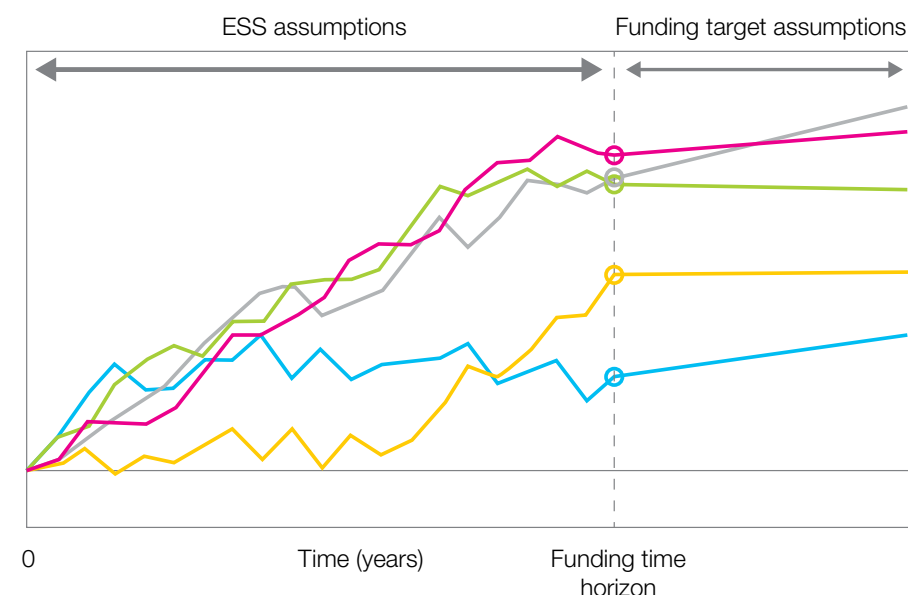
1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").

2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.

Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

## E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is



no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31st March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields

which refer to the simulated yields at that time horizon.

## E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A Rated Corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
Volatility (Disp) (1 yr)		1%	7%	10%	17%	17%	14%	11%	1%		

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the “discount rate”)

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer’s funding target.

## E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

### a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

- 2% p.a. until 31st March 2022 followed by
- 0.5% above the consumer prices index (CPI) p.a. thereafter.

This gives a single “blended” assumption of CPI plus 0.3%. This is equivalent to the assumption adopted at the previous valuation leading to no change in the funding target.

### b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have

continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

### c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

Funding basis	Ongoing participation basis	Contractor exit basis	Low risk exit basis
<b>Employer type</b>	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
<b>Investment return assumption underlying the employer’s funding target (at the end of its time horizon)</b>	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.8% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund’s assets

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

#### d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the

Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

## > Appendix F Glossary

### Funding basis

The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.

### Administering Authority

The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".

### Admission Bodies

Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).

### Covenant

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the

longer term.

### Designating Employer

Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.

### Employer

An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.

### Gilt

A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.

### Guarantee / Guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

### Letting employer

An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

### LGPS

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each

LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

### **Maturity**

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

### **Members**

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

### **Primary contribution rate**

The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.

### **Profile**

The profile of an employer's

membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs. their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

### **Rates and Adjustments Certificate**

A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.

### **Scheduled Bodies**

Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g.

teachers, police and fire officers, university lecturers).

### **Secondary contribution rate**

The difference between the employer's actual and Primary contribution rates. See Appendix D for further details.

### **Stabilisation**

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund

### **Valuation**

A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too



# Investment Strategy Statement

This is the Investment Strategy Statement (“ISS”) of the Gloucestershire Pension Fund (“the Fund”), which is administered by Gloucestershire County Council, (“the Administering Authority”). The Council has a duty to ensure that the Fund assets, not immediately required to pay pension benefits, are suitably invested and to take proper advice in the execution of this function. It has delegated this responsibility to the Funds Pensions Committee (“the Committee”).

The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”) and guidance issued from time to time by the Secretary of State. The ISS has been prepared by the Committee having taken advice from the actuary to the Fund, Hymans Robertson LLP and the Fund’s Independent Investment Advisor.

This ISS, which was approved by the Committee, is subject to periodic review at least every three years and without delay after any significant change in investment policy. In addition, an appendix is included which sets out the Committee’s Investment Beliefs. This is in line with the recommendations in the Stewardship Code 2020 produced by the Financial Reporting Council (FRC). It is the intention that these beliefs act as broad guidance for the Committee’s actions going forward.

The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (dated February 2020).

## The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death for their dependants, on a defined benefits basis. The funding position of the Fund will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

It is intended that the Fund’s investment strategy and strategic asset allocation will be reviewed at least every three years following an actuarial revaluations of the Fund.

The Committee carried out a strategic asset allocation review and an asset liability modelling exercise in conjunction with the 2019 actuarial valuation of the Fund. A number of different contribution and investment strategies were modelled and the future evolution of the Fund considered under a wide range of

different scenarios. The Committee considered the chances of achieving their long-term funding target – maintaining a fully funded position into the future. They also considered the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors the investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability, given the Fund’s level of funding and liability profile
- The level of expected risk
- The outlook for asset returns over the long term

The Committee also monitors the Fund’s actual allocation on a regular basis to ensure it does not notably deviate from the agreed target allocation range, and will rebalance back to within this target allocation range as necessary to control investment risk.

## Investment of money in a wide variety of investments

### Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including

equities; fixed interest and index linked bonds; cash; property; and loans, either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds, investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers advice from a suitably qualified

person in undertaking such a review, this being the appointed Independent Advisor to the Gloucestershire Pension Fund. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The conclusions of the asset allocation review conducted in 2020 were that the Fund could afford to take a modestly lower level of investment risk and still achieve the required rate of return as forecast by the actuary. As a

result, the overall target allocation to equities has been reduced and there have been increases in the target allocations to, international property; infrastructure; private equity and private debt. Due to the illiquid nature of some of the assets the Fund will be investing in, this move will take a number of years to complete.

The new target investment strategy is set out below.

### Allocation by investment category

Investment Category	Strategic Asset Allocation to 31st March 2020	Target Strategic Asset Allocation from 1st April 2020	Target Strategic Asset Allocation Range from 1st April 2020
Equities	58.5%	55.0%	52% to 58%
Alternatives	17.0%	23.0%	21% to 25%
Fixed Interest	24.5%	22.0%	20% to 24%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

As at February 2020, the forecast return on the target portfolio over the long-term was 4.8% p.a. with an expected annual volatility of the funding level of 9.1%. This volatility includes an assumed diversification benefit. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

### Restrictions on investment

In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public

Involvement in Health Act 2007.

The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved and a rebalancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore, it is not felt necessary to set additional restrictions on investments.

Once the Committee has set the strategic asset allocation for the Fund, after seeking appropriate investment advice, it sets benchmarks for each asset class which reflect the risk and return profile which the Fund is looking to access so that, in aggregate,

they are consistent with the overall asset allocation for the Fund.

The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. Passive management (where the portfolio directly reflects the composition of the benchmark), is used where the Committee do not believe an active manager is able to add value in this asset class or where there is a desire to dampen the investment risk in that asset class.

The individual managers and their benchmarks are as follows:

Asset Class	Benchmark	Strategic Asset Allocation to 31st March 2020 (%)	Target Strategic Asset Allocation from 1st April 2020 (%)	Target Asset Allocation Range from 1st April 2020 (%)
<b>Equities</b>		<b>58.5</b>	<b>55.0</b>	<b>52.0 to 58.0</b>
UK Active Equities	FTSE All Share	13.0	12.0	10.0 to 14.0
Global High Alpha	MSCI World	14.0	13.0	11.0 to 15.0
Emerging Market	MSCI Emerging Markets	7.0	6.5	5.0 to 8.0
Sustainable	MSCI World	2.0	2.0	1.0 to 3.0
Low Carbon	MSCI World	2.0	2.0	1.0 to 3.0
Passive Developed (hedged)	MSCI World	5.5	5.0	3.5 to 6.5
Passive Developed (unhedged)	MSCI World	5.5	5.0	3.5 to 6.5
Smart Beta	MSCI World	9.5	9.5	8.0 to 11.0
<b>Fixed Interest</b>			<b>22.0</b>	<b>20.0 to 24.0</b>
UK Investment Grade	Iboxx UK Corporate Bonds	17.0	14.5	13.0 to 16.0
Multi Asset Credit	Cash +2%	7.5	7.5	6.5 to 8.5
<b>Alternatives</b>			<b>23.0</b>	<b>21.0 to 25.0</b>
Absolute Return	Cash +5%	4.0	0.0	0.0
Property	IPD UK Balanced	7.5	10.0	8.0 to 12.0
Infrastructure		1.0	5.0	4.0 to 6.0
Private Equity		1.0	3.0	2.0 to 4.0
Private Debt		3.5	5.0	4.0 to 6.0
Venture Capital		0.0	0.0	0.0 to 0.5
Cash		0.0	0.0	0.0 to 0.5
<b>TOTAL</b>		<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The intention is to move to the Target Strategic Benchmark in stages over the next few years as market conditions allow.

### The approach to risk, including the ways in which risks are to be measured and managed

The Gloucestershire Pension Fund Committee is aware that the Fund has a need to take investment risk to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and has put in place processes to manage, measure,

monitor and (where possible) mitigate the risks being taken. The principal risks affecting the Fund are set out below, as is the Fund's approach to managing these risks and the contingency plans that are in place:

#### Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting its liabilities
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund after taking into account the most recent actuarial data from the 2019 actuarial review. This data will be updated in 2022. The Committee assesses risk relative to the strategic benchmark

by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee monitors Demographic changes by using detailed mortality analysis provided by the Funds actuaries during each triennial actuarial review.

The Committee seeks to mitigate systemic risk through a diversified portfolio of assets and by employing a number of asset managers. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

### Investment risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows:

The Fund's strategic asset allocation benchmark includes a diversified range of asset

classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from this target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.

The Fund monitors its cashflow requirements and any necessary generation of income from its assets to meet current and future pension payments. The cash flow forecasts are formally updated as part of the triennial actuarial review. The Fund invests in a range of assets, both liquid (quoted equities and bonds) and less liquid (infrastructure, private debt etc). The Committee monitors its need for liquidity in the short term whilst recognising that a higher investment return may be available in less liquid assets when held over the long-term.

The Fund invests in a range of overseas markets which provides an exposure to a diversified range of currencies; the Committee also assess the Fund's currency risk during their risk analysis. A proportion of the currency risk relating to the Fund's overseas equity investments is hedged back to Sterling through investment in currency hedged fund units within the Fund's Global Equity mandates. The extent of currency hedging is kept under review by the Committee and its advisers.

Details of the Fund's approach to managing ESG risks is set out later in this Investment Strategy Statement.

The Committee believes in working with asset managers over the long-term which allows the asset manager to invest over the long-term, and the Committee monitors them on this basis. The diversification by manager and long-term nature of the investment

process adopted by the asset managers reduces the probability of a single asset manager underperforming to the extent that it affects the Funds ability to meet its liabilities in a significant way. Under the advent of pooling the selection and monitoring of asset managers is undertaken by the Brunel Pension Partnership (Brunel) who are resourced to complete this function. Nonetheless the Committee will continue to hold both Brunel and the underlying managers to account as necessary.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

### The approach to pooling investments, including the use of collective investment vehicles and shared services

The Gloucestershire Pension Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd (Brunel). Brunel is wholly owned by the Administering Authorities of these ten member Funds and is authorised by the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme.

The pool has been created in order to achieve greater economies of scale within asset management, increase resources focused on the selection and monitoring of asset managers, provide thought leadership in Responsible Investment and ESG areas, imbedding these into the selection of asset managers and investments, and deliver cost savings to the Fund. The Fund's intention is to invest its assets through the Brunel pool as and when suitable investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government.



The key criteria for assessment of Pool solutions will be as follows:

1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.

2 That there is financial benefit to the Fund in investing in the solution offered by the Pool.

At the end of 2019/20 around half of the Fund's assets are now being managed by Brunel with the vast majority of the Funds assets expected to be under their management by the end of 2021/22. At the time of preparing this statement, the Fund has elected not to invest the following assets via the BPP Pool:

- Two small closed end fixed life venture capital funds. These funds will mature over the next few years and repay their proceeds to the Fund. These assets equate to less than 1% of the Funds total assets. It is deemed to not be cost effective to transfer these assets to the pool due to the impending wind up of these funds.

Any assets not invested in Brunel will be reviewed at least every three years to determine whether the rationale for holding them outside the pool remains appropriate, and whether this approach demonstrates value for money.

The Gloucestershire fund is a client of Brunel and as a client has the right to expect certain standards and quality of service. A detailed service agreement has been signed which sets out the duties and responsibilities of Brunel, and the rights of the Gloucestershire Fund as a client. It includes a duty of care on Brunel to act in its clients' interests. Each client has an appointed Shareholder and an Oversight Board and Client Group have been established. They are comprised of representatives from each of the Administering Authorities including Gloucestershire.

These have been set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, they will, together with the nominated Shareholders, have responsibility for ensuring that Brunel delivers the services required to achieve investment pooling. The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. The Committee is aware that the Ministry for Housing, Communities and Local Government is currently engaged in a further consultation regarding the mechanisms for pooling and the Fund will take any updated recommendations and advice into account when issued. Gloucestershire County Council has approved the full business case for the Brunel Pension Partnership.

### **How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments**

The Committee consider the Fund's approach to responsible investment in two key areas:

- Responsible investment, including climate change** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and encouraging its investment managers to engage with investee company management as part of the investment process.

## **Responsible investment, including Climate Change**

As a Pension Fund, with pension obligations stretching out many years into the future, the Fund, by its nature, is a long-term investor. The authority recognises that investing responsibly over the long-term must include the consideration of not just financial data but also of the impact of the Fund's investments in terms of the environment, effects on broader society and corporate governance (ESG issues). The Fund, through Brunel, has appointed asset managers who invest for the long term and explicitly consider ESG issues as an integral part of their research effort when investing the Fund's assets.

The Fund also expects to vote, where practical, on all Annual and Extraordinary general meetings held by companies in which it is invested, via the Brunel Pension Partnership. The Fund will not seek to exclude investments that are not barred by UK law in the belief that engagement is preferable to divestment. Whilst there is obvious risk in investing in companies with material ESG issues, there can be long-term financial gain where such companies are actively attempting to manage and improve these risks, and as such the Fund adopts a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance future returns to investors, and believes this is more compatible with its fiduciary responsibility and more supportive of its long term investment goals.

If a company fails to engage on these issues with the Brunel Pension Partnership and with the Fund's asset managers, or if the BPP and/or asset managers have reason to believe a company is not being honest and open about its intended actions in this area, divestment on a stock by stock basis remains an option.



The Fund will work with like-minded investors within the BPP to promote best practice in the long-term stewardship of investments.

Brunel's Investment Principles clearly articulate the commitment of each Fund in the Partnership and its operator (Brunel Company), to be responsible investors and as such recognise that social, environment and corporate governance considerations are a key part of the processes in the selection, non-selection, retention and realisation of managers and underlying assets. One of the principal benefits, outlined in the Brunel business case, achieved through scale and resources arising from pooling, is this improved implementation of responsible investment and stewardship. Every portfolio, in every asset class, under the Brunel, explicitly includes responsible investment and includes an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives. More information is available on the Brunel Pension Partnership website.

## Climate Change

### The Brunel Pension Partnership's 2020-2022 climate change policy objectives

The Gloucestershire Pension Committee fully encourages and supports the BPP's 2020-2022 policy objectives on climate change which are set out in their Climate Change Policy. These are laid out below.

### Brunel's 2020-2022 policy objectives

We will play an active and leading role in encouraging policy makers

to establish comprehensive and robust climate change policy frameworks. Within this, we will focus particular attention on:

- The adoption of a meaningful price on carbon, which is material (i.e. sufficient to drive change at the scale and rate required); progressive over time and widespread (i.e. applies to all major sectors of the economy).
- The removal of fossil fuel subsidies.
- The introduction of policy measures – for example, product standards, limitations on high carbon technologies, support for low carbon technologies – that accelerate the move away from high impact activities and sectors.
- The removal or correction of regulatory barriers to progress and support financial policy makers and regulators in being ambitious and effective in implementation of plans to mitigate climate risk and under the Adaptation Reporting Power.
- The integration of climate change into the mandates and into the oversight and control processes of prudential regulators and other regulatory bodies.
- Ensuring that climate change policy is socially sustainable and takes due account of workers' rights and community interests (the 'Just Transition') when taking action to reduce greenhouse gas emissions and adapt to a changing climate.

We will play an active leading role in encouraging policy makers to integrate climate change into multilateral and bilateral trading frameworks, with a particular focus on the UK post Brexit.

We will encourage policy makers to introduce mandatory climate change disclosure requirements for companies, with a focus on providing clear, decision useful information and encouraging a

clear articulation of the risks that companies and their investors face.

We will support the development of skills, knowledge and professional standards of those intermediaries who are critical influencers in the action of investors and companies. These include, but are not limited to, investment consultants, actuaries, lawyers and auditors.

Further details of Brunel's Climate Change policy are set out on its website <https://www.brunelpensionpartnership.org/>.

## Monitoring and Reporting Progress

Reporting on climate change is an area that is rapidly developing, and we are working with Brunel and other member funds to continue to improve this. We are supportive of Brunel's involvement in initiatives, such as the Institutional Investors Group on Climate Change ("IIGCC") Paris Aligned Investment Initiative, that are working to allow asset owners and investment managers to explain, in a consistent and comparable manner, how their portfolios compare to the goals of a net zero carbon future and of keeping global temperature rise below 2°C.

## 2022 stocktake and ongoing improvements

The Gloucestershire Pension Fund is currently supportive of Brunel's approach of not issuing exclusion lists as we believe that simply stating exclusions or requiring divestment from specific stocks or sectors will not compel investment managers to develop their capacity on climate change or drive change in the companies in which they are invested.

Alongside Brunel and our partner funds, we will be undertaking a full review of our climate change policy approach in late 2022 to provide us with the opportunity to reflect

on our progress, the effectiveness of our approach, and to raise our ambitions (ahead of the triennial strategy review).

One of the key questions that will be addressed as part of this review is whether Brunel's decision to engage with investment managers has been effective. Specifically, whether it has been effective in delivering change in the way investment managers work and in their ongoing engagement with companies to drive improvements in corporate strategies on climate change, so that these companies are on a trajectory to be aligned with the transition to a 2°C economy. If the answer is no, we will be expecting Brunel to consider whether they need to change investment managers and/or introduce selective divestment requirements for companies.

We will continue to monitor Brunel's progress on implementing its policy objectives and will work with them to achieve our collective climate change ambitions. If the Fund does not feel action is progressing at an appropriate pace, the Fund will seek to address this with the partnership.

## Stewardship

The Committee believes one of the potential benefits of pooling, achieved through the scale and resources arising from pooling, is the improved implementation of stewardship practices. Brunel has published its Responsible Investment Stewardship Policy which outlines its approach and priorities.

The policy reflects the priorities of its underlying clients, and we were active in contributing to the policy.

With the support of the Gloucestershire Pension Fund and the other partner funds, Brunel has been using its influence to press for improved stewardship at external investment managers

and has been actively involved in government consultations and other initiatives in the area. Once all equity assets have been transitioned, the Partnership and Brunel Ltd will seek to deliver best practice standards in responsible investment and stewardship in terms of company engagement as outlined in the Brunel Pension Partnership Investment Principles. More information is available on the website ([www.brunelpensionpartnership.org](http://www.brunelpensionpartnership.org)).

The Committee has delegated investment powers to Brunel and the Fund's investment managers (where assets have not yet transitioned to Brunel) to act in the best interests of the Fund. Brunel and the Fund's investment managers are encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in key areas. Brunel and the Fund's investment managers have been asked to report to the Committee on the implementation of their stewardship and engagement activities, which will be reviewed on a regular basis.

Officers of the Fund have been involved in the Responsible Investment sub-group and discuss ESG and responsible investment matters regularly. A representative from Brunel is also present at the majority of Committee meetings and can report back on these activities.

The Fund recognises the importance of collaboration with other investors to achieve more effective and wider reaching outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum ("LAPFF") which aims to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

## 2020 UK Stewardship Code:

In late 2019, the Financial Reporting Council ("FRC") published its revised 2020 UK Stewardship Code ("2020 Code"). The latest Code defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

The FRC has described the 2020 Code as ambitious and highlighted the increased focus on 'activities and outcomes' as opposed to policy statements alone. As part of this increased remit, the 2020 Code covers a wider range of asset classes, requires signatories to consider the systematic integration of ESG and climate change in the stewardship and investment process, and is based on a more stringent 'comply and explain' basis.

The Committee will be reviewing its policy towards becoming a signatory to the Stewardship Code 2020 as published by the Financial Reporting Council. In relation to the asset classes where the UK Stewardship Code is relevant, our Fund Managers are signatories.

The Committee expects both the Brunel pool and any directly appointed fund managers to comply with the Stewardship Code 2020 and this is monitored on an annual basis. Through Brunel the Fund is affiliated with Institutional Investors Group on Climate Change (IIGCC); Share Action; The Task Force on Climate Related Financial Disclosures (TCFD); the UK Sustainable Investment and Finance Association (UKSIF) and Climate Action 100. We continue to explore opportunities to enhance our stewardship activities.

## Voting

The Committee has delegated

the exercise of voting rights to Brunel and the Fund's investment managers (where assets have not yet transitioned to Brunel) on the basis that voting power will be exercised with the objective of preserving and enhancing long-term shareholder value.

As part of owning publicly listed companies Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs). Brunel aims to vote 100% of all available votes. To provide guidance to its managers, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts. Hermes EOS has been appointed to support Brunel as its engagement and voting service provider. Brunel will publish its voting policy and provide online voting records at least annually. The Fund will publish the voting carried out on its behalf on its website.

Investment managers have produced written guidelines of their process and practice in this regard. They are encouraged to vote in line with their guidelines, in respect of all resolutions, at annual and extraordinary general meetings of companies. Investment managers are expected to report on their voting activity on a regular basis.

## Appendix – Investment Beliefs

The Committee believes that

- It is important that funding related aspects and, in particular, funding level and cash flow profile feed into investment strategy decisions. Given this, actuarial and investment matters are looked at in tandem by the Committee, most notably setting investment strategy.
- The Committee targets a strong funding level to provide some buffer to the risk of future employer contribution increases. This and knowledge of the future cash flow

profile of the Fund enables the Committee to adopt a long-term investment horizon. This enables the Fund to accept short term volatility in investment returns or the illiquidity of some assets, in order to achieve higher investment returns. In this context, the Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular, government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

- Strategic asset allocation is a key determinant of investment risk and return, and thus is typically more important than manager or stock selection which going forward will be delegated to the LGPS pool to which the Fund is a member. In addition, the Committee believes that periodic rebalancing of asset class weightings back to their strategic benchmark can add value over the long term.
- Risk can be mitigated through the diversification of the portfolio, by selecting a variety of both asset classes and managers. A balance needs to be struck between the need for diversification and keeping a small enough number of mandates to ensure good governance.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors. Active management can add value over time but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management may be preferred, but brings some of its own risks. In all cases, managers will be judged on net returns calculated after fees. It is one of the roles of the Investment Committee to monitor investment costs and challenge where necessary.

- A strong ESG / RI policy is required by regulation and should be seen within the context of the Fund's long-term investment and futureproofing its financial security. ESG considerations can help identify superior long-term investments and the Committee requires its managers to include them as an integral part of their investment processes, provided these considerations do not detrimentally impact financial returns or risk. The Fund requires managers to report back to them on all ESG matters.

- The Committee believe that controlling climate change will impact all investment decisions going forward and, therefore, require their investment managers to adopt a policy of engaging with investee companies to improve their behaviour in all areas but particularly regarding climate change. The committee believes that engagement with investee companies rather than exclusion, is the best approach to achieve material change and is more compatible with their fiduciary duty and more supportive of their long-term investment goals. However, where investee companies are not taking sufficient action or are not prepared to engage in good faith on these issues, we believe this is likely to impact future returns and expect our managers to act accordingly.
- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability add value to the Fund. The Committee believes in appointing good investment managers with which to work in partnership, delegates authority to them, and monitors their performance (on financial and other metrics) regularly. The Committee also believes that taking independent advice, notably in investment and actuarial matters, can strengthen governance, and add value to the Fund.

# Communications Policy

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The following Communications Policy Statement outlines how the Fund communicates with scheme members, their representatives and employers and was reviewed in August 2018.

All employers are instructed to issue new employees with a pensions starter pack provided by the Administering Authority, which provides information regarding the pension scheme and the individual's options together with links to where more detailed scheme information can be obtained.

HR and Payroll Guides to the 2014 Scheme are provided by the Local Government Association on the National LGPS 2014 Regulations & Guidance website. A link to this information is provided on the Employer page of the Fund's website together with an administration guide to the 2008 Scheme.

During 2019/20 the Pension Fund communicated with scheme members, their representatives and employers as set out in the policy statement below.

## > Communications Policy Statement

Various means are employed to communicate with the Fund's stakeholders. These are described in respect of each interested group as shown below:

### **Members of the Scheme**

An Annual Meeting is held each December and provides the main opportunity for the Fund to explain its performance and accounts to members of the Fund and employers.

The Fund's Annual Report is also placed on the pension pages of the County Council's website. This Report includes the Fund's policy statements covering Funding Strategy, Governance, Communication and Administration. In addition, each policy statement is listed separately on the website.

All pensioner members receive a pension newsletter each April that covers matters of interest.

An annual Benefit Statement is sent to all active and deferred members of the Fund showing their accrued benefits up to the end of the previous financial year. At this time the opportunity is also taken to include information on current matters of interest to scheme members.

Information on the scheme and changes to it are posted on the pension pages of the County Council's website and where appropriate these are also posted onto the "news" section of the staff intranet.

The Authority continues to send payslips to pensioners every April, May and October. The October



pensioner pay slips include an invitation to the Fund's Annual Meeting and details on how to access the annual report and accounts.

Pay slips are also sent where the difference in the net pension payment is £10 or more from the previous month.

All active scheme members are sent an invitation to attend the Fund's Annual Meeting, via their employer and are given the link to the County Council's website to access a copy of the Fund's annual report and accounts. They are also given details on how to request a paper copy of the annual report and accounts.

## **Prospective Members of the Scheme**

All employers are provided with a link to the employers' pages of the Fund's pension website, together with instructions on how to supply all prospective members of the scheme with a pensions pack. This pack informs individuals of the benefits of the scheme as well as details about where they can obtain further information.

Advice and guidance is provided by Pensions staff to all employers within the Fund on an on-going basis.

## **Scheme Employers**

An online employers' guide to the scheme is made available to all new and prospective employers via the County Council's website.

Employers are also consulted on key revisions to the Funds strategy and policy documents

- the Investment Strategy Statement, the Governance Policy and Compliance Statements, the Administration Strategy, the Communication Policy and the Funding Strategy Statement.

Employer forums are held with the administering authority at least twice yearly to help improve understanding of: the pension scheme; the employers' role and ways of improving the accuracy and timeliness of scheme administration. All employers are invited to attend. Minutes of the meetings and copies of any presentations are sent to all employers, including those unable to attend.

Copies of all relevant communications received centrally (i.e. from MHCLG, Treasury, HMRC, LGA, etc.) are circulated to employers to ensure they are kept informed. These documents are often discussed in detail at the Employers Forums. In addition, communications relating to operational requirements and changes are circulated to employers where required.

Where we are informed of a transfer, direct dialogue takes place between the administering authority and employers being affected by business transfers to ensure trades unions and prospective employers understand the pension scheme.

Every three years when the triennial valuation takes place meetings are arranged with the actuary to discuss the outcome of the valuation, contribution rates and e.g. options around phasing in any increase in contribution required.

Meetings are held with the Chief Financial Officers of District Councils where there is an opportunity for current developments and issues to be presented and discussed.

## **Employee Representation**

The Pension Committee includes an employee representative nominated by the trades unions, as one of its members. The employee representative also represents pensioners and deferred members.

Employee representatives are involved in consultation where business transfers are proposed.

## **Pension Board**

The Gloucestershire Pension Board meets at least twice a year and includes two employer representatives and two employee representatives. Members of the public are able to attend as observers.



# Summary of Fund Benefits

## Introduction

The Gloucestershire Pension Fund is administered under the Local Government Pension Scheme (LGPS) Regulations. Benefits built up from 1st April 2014 are calculated on a Career Average Revalued Earnings (C.A.R.E.) basis. Benefits accrued prior to 1st April 2014 continue to be protected on a “final salary” basis.

The scheme is open to all eligible employees regardless of the hours worked and continues to provide a comprehensive set of benefits for its members. Shown below is a summary of the key features of the scheme currently in force from 1st April 2014. This summary is only provided as an illustrative guide of some of the key features of the scheme and is not intended to give details of all the benefits provided, or the specific conditions relating to the provisions of the scheme.

## Enquiries

Enquiries and more detailed information on the LGPS can be obtained by visiting the Gloucestershire County Council Pensions website at [www.gloucestershire.gov.uk/pensions](http://www.gloucestershire.gov.uk/pensions) or from the Pensions Section at Shire Hall, Gloucester, phone (01452) 328888.

## Local Government Pension Scheme (LGPS) Regulations 2013 (as amended) –

### Principal Features of the Scheme in Force from 1st April 2014

- Employee Contribution Rate – Variable (9 Band Rates) between 5.5% and 12.5% depending on level of earnings.

- Annual Pension and Lump Sum

- C.A.R.E. Pension based on 1/49th of pensionable pay attributable to each year of membership (index linked by C.P.I.) from 1st April 2014 PLUS option to exchange up to ¼ of pension pot for a lump sum (each £1 of pension providing £12 lump sum).

- Any membership between 1st April 2008 and 31st March 2014 will provide a pension based on 1/60th of final years pensionable pay for each year of membership PLUS option to exchange up to ¼ of pension pot for a lump sum (each £1 of pension providing £12 lump sum)

- Any pre 1st April 2008 membership will provide “standard benefits” of a pension based on 1/80th of final years pensionable pay for each year of membership PLUS a lump sum of three times the pension. There is also the option to exchange part of the pension to increase the lump sum to ¼ of the pension pot (each £1 of pension providing £12 lump sum).

- 50:50 Option - allowing members the option to pay half contributions for half pension benefits.

- Normal Retirement Date - Later of State Pension Age or age 65. Member also has the right to retire from age 55 (although benefits will normally suffer an actuarial reduction).

- Earliest Retirement Date – age 55 in cases of – Member initiated Early Retirement / Flexible Retirement / Redundancy / Efficiency of the Service.

- Ill Health Retirement – early payment of benefits (irrespective

of age) if “permanently” incapable of continuing in the employment the member was engaged in due to medical reasons and is not immediately capable of undertaking any “gainful employment” in the future. Level of benefits based on a three tier system, depending on likelihood of being able to obtain “gainful employment”.

- Provision for an ongoing pension is provided for a spouse, registered civil partner, eligible cohabiting partner (subject to certain qualifying conditions) and/or any eligible children in the event of a member's death.

- Lump Sum Death Grant - In the event of death in service, a lump sum death grant of three times annual pay is payable.

- Index Linking - Pensions are increased in accordance with annual review orders made under the Pension (Increase) Act 1971. The index currently used for this purpose is the Consumer Price Index (CPI).

- Additional Pension Benefits - In house facilities to increase potential benefits by:

- paying additional monthly contributions to purchase additional pension (to a maximum (at 1st April 2019) of £7,026). From 1st April 2020 this increased to £7,194;

- making additional voluntary contributions to Prudential's in-house AVC arrangement to provide an additional pension benefit at retirement.

# Glossary of Terms

## Accrual

An amount to cover income or spending that has not yet been paid but which belongs to that accounting period.

## Actuary

An advisor on financial questions involving probabilities relating to mortality and other contingencies. Every three years the Scheme appointed actuary reviews the assets and the liabilities of the Fund and reports to the Strategic Finance Director (and Section 151 Officer) on the financial position. This is known as the triennial actuarial valuation.

## Active Investment Management

A style of investment management where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection (or by a combination of each).

## Admitted Body

An organisation that chooses and is allowed by the scheme to be admitted to the LGPS using an Admission Agreement in order to provide access to the scheme for some or all of its employees.

## Additional Voluntary Contributions (AVC's)

Contributions over and above a member's normal contributions which the member elects to pay in order to secure additional benefits.

## Augmentation

This is when extra pension benefits can be bought for a pension scheme member. They are usually paid for by the employer.

## Benchmark

A target or measure against which performance is to be judged, which is commonly used to assess the investment performance of a fund or portfolio.

## Bid/Offer/Mid Price

**Bid** - The price at which a Market-maker or dealer is prepared to buy securities or other assets.

**Offer** - The price at which a Market-maker or dealer is prepared to sell securities or other assets.

**Mid** - The average of the current bid and offer price.

## Bond

Certificate of debt issued by a Government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

## Consumer Price Index (CPI)

Measure of price inflation in the UK. Differs from the RPI in the range of goods and services included, and the way the index is constructed.

## Deferred Retirement Benefit

A retirement benefit that a member has accrued but is not yet entitled to receive.

## Derivatives

See definition on note N17, page 83.

## Equities

Share in the ownership of a company, giving the holder the right to receive distributed profits and to vote at annual general meetings of the company. A term used for ordinary shares.

## Exchange Traded Funds (ETFs/ET's)

A fund that tracks a selection or 'basket' of related securities within a stock market index but can be traded on an exchange like a stock or share.

## Fair Value

A price deemed to accurately reflect the value of a security based on measurable valuation fundamentals. Considered to be an equitable valuation from the point of view of both buyer and seller.

## FTSE

Indices maintained by the FTSE Group (an independent company originally set up by the Financial Times and the London Stock Exchange) which measures the performance of the shares listed on the London Stock Exchange.

## Funding Level

The relationship at a specified date between the actuarial value of assets and the actuarial liability. Normally expressed as a funding ratio or percentage. Used as a measure of the fund's ability to meet future liabilities.

## Futures Contracts

A contract which binds two parties to complete a sale or purchase at a specified future date at a price which is fixed at

the time the contract is effected. Futures contracts have standard terms. Margin (deposit) payments are required, and settlement dealt via a clearing house.

## Gilts

A bond issued by the UK Government and so-called because certificates used to be gilt-edged.

## Global Custodian

An organisation which is responsible for the safe-keeping of assets, income collection and settlement of trades, independent of the asset management function.

## Guaranteed Minimum Pension (GMP)

The minimum pension which a salary related occupational pension scheme must provide in respect of contracted out contributions paid between April 1978 and 1997, as a condition of contracting out of the state-earnings related pension scheme (SERPS).

## Hedge

A means of protecting against financial loss, normally by taking an offsetting position in a related investment.

## Index Tracking

An investment process which aims to match the returns on a particular market index either by holding all the stocks in the particular index or, more commonly a mathematically calculated sample of stocks that will perform as closely as possible to the index.

## Investment Management Agreement

The document agreed between an investment manager and the Fund setting out the basis upon which the manager will manage a portfolio of investments for the Fund.

## Investment Strategy

The Fund's long-term distribution of assets amongst various asset classes, taking into consideration, for example, the goals of the Pension Committee and their attitude to risk and timescale.

## Leverage

The use of borrowed money to over-invest a portfolio which magnifies both gains and losses. This may be achieved by derivative instruments. Also refers to the debt/equity ratio in a company's balance sheet.

### **Managed Fund**

A pooled fund that invests across a wide range of asset classes. (See Pooled Investment Vehicle).

### **Market Value**

The price at which an asset might reasonably be expected to be sold in an open market.

### **Membership**

Local authority employment during which time pension contributions were made or deemed to have been made providing entitlement to benefits under the scheme.

### **MSCI Index**

Indices maintained and produced by Morgan Stanley Capital International that track equity markets throughout the world. MSCI indexes are weighted by market capitalisation and include various countries, regions and industries in both developed and emerging markets.

### **Net Asset Value (NAV)**

The value in a company or mutual fund, calculated by subtracting total debt from total assets and dividing the result by the number of shares or units in existence.

### **Notional Value**

The value of a derivative's underlying assets.

### **Open Ended Investment Company (OEIC)**

A pooled investment vehicle structured as a limited company. Investors can buy and sell shares on an on-going basis.

### **Options**

The right but not the obligation to buy (call option) or sell (put option) a specific security at a specified price (the exercise or strike price), at or within a specified time (the expiry date). This right is obtained by payment of an amount (known as the premium) to the writer (seller) of the option, and can be exercised whatever happens to the security's market price.

### **Over The Counter (OTC)**

Any market which does not operate through a recognised exchange.

### **Pensionable Earnings**

The earnings on which benefits and/or contributions are calculated under the scheme rules.

### **Performance Measurement**

Calculation of a fund's historic return on its investments.

### **PIRC**

PIRC is an independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility.

### **Pooled Investment Vehicle**

A fund in which a number of investors pool their assets, which are managed on a collective basis. The assets of a pooled investment vehicle are denominated in units that are re-valued regularly to reflect the values of underlying assets. Vehicles include: open ended investment companies, real estate investment trusts and unit trusts.

### **Projected Unit Method**

An accrued benefits funding method in which the actuarial liability makes allowance for projected pensionable pay. The standard contribution rate is that necessary to cover the cost of all benefits which will accrue in the control period following the valuation date by reference to pensionable pay projected to the dates on which benefits become payable.

### **Quoted Investments**

Investments that have their prices quoted on a recognised stock exchange.

### **Realised Gains/ (Losses)**

Profit/(losses) on investments when they are sold at more/(less) than the purchase price.

### **Retail Price Index (RPI)**

Measure of price inflation in the UK. The RPI measures the average change from month to month in the prices of goods and services purchased by most households in the UK.

### **Risk**

The likelihood of a return different from that expected and the possible extent of the difference. It can also indicate the volatility of different assets.

### **Securities**

General name for stocks and shares of all types that can be traded freely on the open market.

### **Segregated Fund**

Where the assets of a particular fund are managed independently of those of other funds under the fund manager's control.

### **Specialist Management**

When an investment manager's mandate is restricted to a specific asset class or sector. The Pension Committee determines allocations to each asset class.

### **Strategic Asset Allocation**

The process of dividing investments between the main asset classes to meet the Fund's risk and return objectives.

### **Transfer Payment**

A payment made from one pension scheme to another pension scheme in lieu of benefits which have accrued to the member or members concerned, to enable the receiving pension scheme to provide alternative benefits.

### **Transfer Value**

The amount of the transfer payment.

### **Unitised Insurance Policy**

Investors are issued with a life policy representing title. Investors' 'holdings of units' represent a means of calculating the value of their policy. The life fund/company holds the pool of investments and is the owner of all the assets.

### **Unit Trust**

Unit trusts are collective funds which allow private investors to pool their money in a single fund, thus spreading risk, getting the benefit of professional fund management and reducing dealing costs. Unit trust trading is based on market forces and their net asset value - that is the value of their underlying assets divided by the number of units in issue. The activities of unit trusts are regulated by the FCA.

### **Universe**

Term sometimes used to describe the total number of funds in a performance survey.

### **Unlisted Securities**

Stocks and shares not available for purchase or sale through the stock market.

### **Unquoted Investments**

Stocks that are not listed on an exchange and so have no publicly stated price.

### **Venture Capital**

Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange. A venture capitalist raises money from investors to invest in such opportunities. These investments are typically risky but potentially very profitable.



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