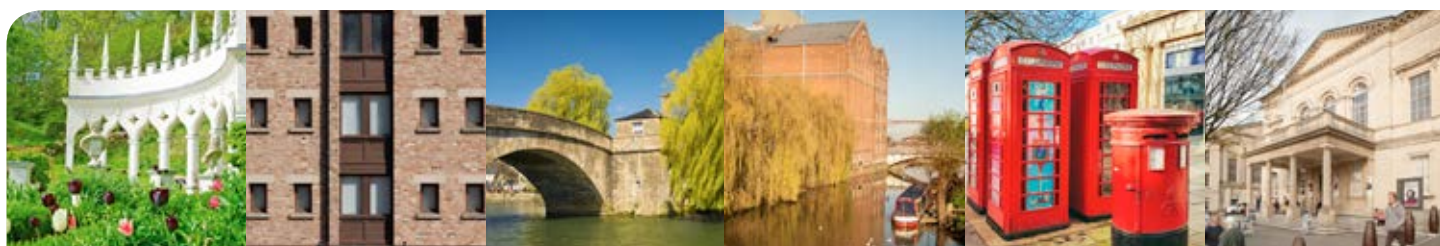


Gloucestershire Local Government

# Pension Fund



2016/17

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

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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 2017.

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

This report is primarily aimed at Fund members and participating employer organisations within the Gloucestershire Pension Fund (listed on pages 19 to 22), to provide information on the management arrangements and performance of the Fund over the last 12 months. The latest version of the Fund's policy statements covering investment principles, funding strategy, governance and communication, as well as details of Fund membership and a brief summary of scheme benefits are also included within the Report. The formal accounts of the Fund for the year ended 31st March 2017 can be found on pages 47

to 84. Membership of the Pension Fund remained fairly static at around 52,000 during the 2016/17 year. A breakdown of the Fund membership is included on page 16.

The actuarial report on the Fund can be found on pages 35 to 36. This outlines the approach taken to secure Fund solvency while keeping employer contributions stable and also gives the web link to the 2016/17 Fund Valuation Report which gives details of the actuarial assumptions and methods used to value liabilities. From this report it can be seen that the Fund's assets, as at the last triennial valuation date of 31st March 2016 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 resulting deficit at the 2016 valuation was £435 million.

During 2016/17, largely due to excess returns on assets, partially offset by the fact that bond yields

have fallen placing a higher value on the liabilities of the fund, the overall funding position of the fund improved, with the value of the assets as at 31st March 2017 rising to £2,082 million, which were sufficient to meet 82.1% of the liabilities accrued up to that date. The resulting deficit as at 31st March 2017 had reduced to £417 million.

During 2016/17 the Fund achieved a +21.3% return on its investments. This was just below the average local authority universe return of 21.4 %, as calculated by PIRC Local Authority Pension Performance Analytics (who monitors the performance of pension funds) and placed Gloucestershire in the 46th percentile of a universe of 60 local authority pension funds.

As in the latest year, the Gloucestershire Fund has performed very close to the average over longer terms too. The Gloucestershire Fund achieved annualised returns of 10.9% over 5 years and 6.8% over 10 years

compared to the average annual returns of local authority funds of 10.7% over 5 years and 7.0% over 10 years. Further details on the Fund's performance can be found on pages 24 to 26.

The performance of all of the Gloucestershire Pension Fund investment managers are kept under regular review to help ensure that our management policies have the best possible prospect of adding value over a full market cycle. During the period covered by this report the Fund ended its investment mandate with one of the Global Equity Managers and reinvested these funds with another current Global Equity Manager to improve investment returns.

During the year the Fund instigated a review of its Strategic Investment Strategy. The new strategy emanating from this review is set out in the Investment Strategy Statement (ISS) and came into effect on the 1st April 2017. A copy of the ISS can be found at [www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments). More details on the Fund's investments and performance can be found on pages 23 to 31.

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 department of Communities and Local Government (CLG) 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 new 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 new 2014 LGPS scheme can be found on pages 132 to 133.

Details relating to the administration of the Gloucestershire Pension Scheme are shown on pages 13 and 14 and also within the Administration Strategy at page 90. From the performance figures on page 13 it can be seen that, although performance improved slightly in 2016/17 compared with 2015/16, it is significantly lower than the performance levels achieved under pre April 2014 scheme. The reason for this is due to the increased complexities of the new scheme, which have now been recognised, with staffing levels within the Pensions Administration team having now been increased to take account of these increased complexities.

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 2016/17, 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 during 2016/17 can be found on pages 37 and 38.

In July 2015 the government announced their intention for LGPS Funds to set up investment pooling arrangements. This would involve a number of LGPS Funds with assets totalling approximately £25 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 while 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 investment pooling company called the Brunel Pension Partnership (BPP). This process is ongoing and is on course for the ten Funds to be able to begin transferring their investments into the BPP from April 2018, as expected by the Government.

We express our thanks to all those involved with the investment, accounting and pension administration activities of the 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 7, 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 37, in assisting the administering authority to comply with the LGPS and other pension regulations.

We trust you find the report informative and as we are always seeking to make improvements we would welcome any constructive comments on its content and presentation. Further information is available from the contact points shown on page 8.

**Raymond Theodoulou**  
Chairman of the Pension Committee

**Jo Walker, CPFA**  
Strategic Finance Director

# Independent Investment Advisor's Report

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## Economic Background

The rate of economic growth in the UK and US slowed in 2016 to 2.0% and 1.6% respectively. China defied earlier fears by reporting growth of 6.7% - only slightly down on 2015 - while Japan improved to 0.9% and the Eurozone to 1.6%. The oil price continued to recover from the low of \$28 reached in January 2016, and spent most of the year in the \$50-55 range. Base metal prices also strengthened.

The vote in the June Referendum for the UK to leave the EU was a major surprise, and initially caused sharp falls in UK Equities. The value of sterling fell significantly. While the equity market recovered lost ground after the rapid replacement of David Cameron as Prime Minister by Theresa May, the pound remained depressed, falling below \$1.25 by the end of 2016 - a 15% decline on its pre-Referendum level. The Bank of England responded to the economic uncertainty by cutting UK interest rates from 0.5% to 0.25% in early August, and UK growth remained steady in the second half of the year. Elsewhere, the European Central Bank and the Bank of Japan continued their programmes of quantitative easing.

In another unexpected outcome, Donald Trump was elected President of the United States in November. Again, markets' initial reaction was nervous, but this was soon replaced by optimism about his plans to cut taxes,

deregulate energy, healthcare and financial services, and to offer tax incentives for infrastructure. In the event, his tax proposals look likely to be delayed into the autumn, and the extent of any significant boost to infrastructure is in doubt. In December the Federal Reserve raised US interest rates by 0.25% and again in March 2017, and indicated that they expect to make further rises during 2017.

## Market Returns

Global Equities gave an exceptional return of 33.1% in sterling terms during the year to March. While this return was boosted by the weakness of the pound, the UK market itself rose by a very creditable 23.1%. The gains in North America, Japan, Pacific Basin and Emerging Markets were all in the 32-37% range, while Continental Europe gained 28.5%.

*Source of equity market returns: FTSE All-World Total Return series (£)*

The pound fell by some 13% against both the dollar and the yen during the year, and by 6% against the euro. Conventional UK government bonds ended the year showing modest gains, after reaching record low yields in the summer of 2016, while Index Linked Gilts gained 22% as inflation expectations rose after the drop in sterling and private sector pension schemes bought them in great quantity. Yields on US government bonds rose

after the Presidential Election, on anticipation of expansionary moves by the new administration, and in recognition of the likely rise in short-term US interest rates, but have begun to fall back again recently.

*Source: FTSE-A Index Linked (over 5 years), total return*

The strong growth seen since 2013 in UK Commercial Property values had begun to slow down ahead of the EU Referendum, and sentiment in the Central London rental market deteriorated after June on the potential weakness in demand from overseas occupiers. The fall in sterling, however, increased the attraction of the UK for foreign buyers of property, and for the year to March the All Property total return was a modest +3.8%.

*Source: IPD Monthly Index of Total Returns*

## Economic and Market Outlook

With equity markets having taken the surprise outcomes of the EU Referendum and the US Presidential Election in their stride, it is tempting to downplay the degree of influence exercised on markets by political events. This, however, would be too sanguine a view to take. Whether prompted by the various elections taking place in Europe, the Brexit negotiations, the course of President Trump's trade and foreign policy or the Syrian conflict, we must expect



some disruption to the smooth upward path which equities have travelled in the past year. With further increases in US short-term interest rates predicted for 2017 and 2018, yields on medium-dated US government bonds seem unlikely to fall from their present levels. Any signs of a slowdown in the pace of quantitative easing in Europe or Japan could also have an adverse effect on those bond markets.

This is likely to be a challenging period for future investment returns. However, we have a diversified portfolio strategy, and seek to ride out periods of volatility. In the very long term, we seek to capture the excess returns that arise from investing in equities and real assets.

The Pension Fund has a long term horizon and the investment priority remains long term returns rather than short term risk mitigation.

There were some changes to the strategy and investment managers during the year under review. £34m was reallocated from the Western Asset Management UK Gilt and Corporate bond portfolio to the Global Multi Sector portfolio as it was believed that gilts were overvalued. An active global equity strategy managed by GMO was replaced by a passive Blackrock global equity strategy for performance reasons. The Fund started hedging some of its overseas currency exposure towards the end of the year after sterling's fall in order to partially

protect the value of the overseas holdings.

Following the 2016 triennial actuarial valuation, the Fund conducted an investment strategy review and an allocation to private debt is currently taking place.

**Steve Tyson**

**July 2017**

# Management and Financial Performance

## Scheme Management and Advisors

**Administering Authority:** Gloucestershire County Council

**Pension Committee at 31st March 2017**

**Representing Gloucestershire County Council:**



Cllr. R. Theodoulou  
(Chairman)



Cllr. D. Brown



Cllr. J. Gill



Cllr. C. Hay



Cllr. S. Parsons



Cllr. L. Stowe



**Representing Gloucestershire District Councils:**

Cllr. N. Cooper



**Representing Scheme Members:**

Mr. P. Clark

**County Council Officers:**

Mrs. J. Walker  
Strategic Finance Director

Mr. M. Spilsbury  
Head of Pension Fund

**Independent Advisor:**

Mr. S. Tyson, AllenbridgeEpic

**Fund Actuary:**

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

**Scheme Administrator:**

Gloucestershire County Council

**Investment Managers as at 31st March 2017:**

BlackRock Investments  
CBRE Global Investment Partners (CBRE)  
Grantham, Mayo, Van Otterloo & Co LLC (GMO)  
Hermes Investment Management  
Standard Life Investments  
Western Asset Management Company  
Technology Venture Partners (TVP)  
Yorkshire Fund Managers Equity Partners (YFM)

**AVC Provider:**

Prudential Assurance Company Limited  
Phoenix Life Limited

**Auditor:**

Grant Thornton UK LLP

**Global Custodian:**

BNY Mellon Asset Servicing SA/NV

**Performance Measurement:**

BNY Mellon Asset Servicing  
PIRC Limited

**Banker:**

HSBC

**Legal Advisor:**

Gloucestershire County Council in-house legal team



## Post Year-End Changes

Following the council elections held in May 2017 Councillor J. Gill left the Pension Committee and was replaced by Councillor B. Oosthuysen.

## 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 Finance Manager at Shire Hall,

Gloucester, phone (01452) 328945.

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 Office Registration Number:

PSO 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.

These 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 108 to 111 of this report.

In addition, the Fund's Statement of Investment Principles (SIP) details the individual responsibilities, (including the management of risk), of the Pension Committee, Investment Managers, Council Officers, Custodian and Investment Advisor. It should be noted that the SIP has been replaced by an Investment Strategy Statement from the start of 2017/18, which sets out the approach to investment risk,

including the ways in which risks are to be measured and managed.

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 accounts and internal control assurance reports, AAF01/06 or ISAE 3402. 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. Fund managers attend committee on a regular basis and are held to account on their performance. In addition further in-depth meetings are held at manager's offices during the year. During 2016/17 performance data was provided by the Fund's Custodian 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.

Page 128 of the Statement of Investment Principles 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 70 to 76.

## > Financial Performance

### 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.

In total 21 (29 2015/16) monthly payments were received late, of which all 21 (27 2015/16) were received within the month. In 2015/16, two payments were received 42 and 112 days late.

The option to levy interest on overdue contributions was not exercised.

Employee and Employer Contributions	Total	On Time		Late	
	£000	£000	%	£000	%
2013/14	82,000	81,600	99.6	400	0.4
2014/15	90,000	89,500	99.4	500	0.6
2015/16	97,000	96,600	99.6	400	0.4
2016/17	103,000	102,900	99.9	100	0.1

### Fund Account (inflows) and outflows

The following table shows the income and expenditure of the Pension Fund over the last four years together with an estimate for 2017/18.

Fund Account	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Budget
	£000	£000	£000	£000	£000
Contributions	-84,895	-92,866	-98,448	-105,548	-111,889
Transfers in	-4,719	-3,708	-1,131	-7,100	-3,980
Bulk transfer values in	-	-2,556	-	-94	-
Investment income	-26,785	-23,614	-24,723	-27,256	-25,198
Other income	-297	-157	-139	-151	-149
Benefits payable	68,488	71,008	71,937	76,653	79,476
Payments to and on account of leavers	3,850	3,712	2,365	3,323	3,133
Bulk transfer values out	9,200	29,012	1,078	338	-
Administration and Oversight & Governance expenses	1,316	1,340	1,477	1,827	2,301
Investment management expenses	6,074	5,753	6,136	6,698	5,230
Profit, loss and change in market value	-93,887	-190,503	48,019	-334,803	-159,096
<b>Net increase (-) / decrease in the Fund</b>	<b>-121,655</b>	<b>-202,579</b>	<b>6,571</b>	<b>-386,113</b>	<b>-210,172</b>

The following table compares the actual income and expenditure of the Pension Fund for 2016/17 against budget.

<b>Fund Account</b>	<b>Actual £000</b>	<b>2016/17 Budget £000</b>	<b>Variance £000</b>
Contributions	-105,548	-105,979	431
Transfers in	-7,100	-3,186	-3,914
Bulk transfer values in	-94	-	-94
Investment income	-27,256	-23,541	-3,715
Other income	-151	-198	47
Benefits payable	76,653	73,662	2,991
Payments to and on account of leavers	3,323	3,309	14
Bulk transfer values out	338	-	338
Administration and Oversight & Governance expenses	1,827	1,814	13
Investment management expenses	6,698	5,766	932
Profit (-), loss and change in market value	-334,803	-78,841	-255,962
<b>Net increase (-) / decrease in the Fund</b>	<b>-386,113</b>	<b>-127,194</b>	<b>-258,919</b>

#### Transfers in

Transfers in relate to benefits accrued in other pension schemes by members which have then been transferred into the Gloucestershire Fund. These payments are unpredictable and depend on the number of members transferring their service and the amount of service each member has.

from the Fund's equities and property pooled fund investments in excess of the previous year.

#### Profit, loss and change in market value

Profit, loss and change in market value is the total of realised and unrealised profits and losses of the Fund's investments.

proportion of this can be attributed to the disinvestment of one of the pooled funds which realised the profits that had accrued since its inception in 2009.

#### Investment income

Investment income is the income received by way of dividend payments and distributions. In 2016/17 over £2m was received

Profits and losses realised on sales of investments during the year totalled a net profit of £237.9m (£14.1m (re-stated) in 2015/16, £21.0m in 14/15). A large

The change in the market value of investments held at the 31st March 2017 on the previous year totalled £96.9m (-£62.1m in 2015/16, £169.5m in 2014/15). During 2016/17 the Fund achieved a performance figure of 21.3% compared to -1.4% in 2015/16 and 14.4% in 2014/15.

## Cash flow

For 2016/17 the inflow of cash to the Fund continued to exceed the outflow. Details of the net cash inflow to the Fund for the past 4 years and a forecast for the following year are shown below:

	<b>2013/14 Actual £000</b>	<b>2014/15 Actual £000</b>	<b>2015/16 Actual £000</b>	<b>2016/17 Actual £000</b>	<b>2017/18 Forecast £000</b>
Net cash inflow	30,483	15,117	44,783	55,028	50,566

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. In 2016/17 there were extra-ordinary net payments out of £0.2m (£1.1m 2015/16) relating to transfers of staff to another 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.

	2013/14 Actual £000	2014/15 Budget £000	Actual £000	2015/16 Budget £000	Actual £000	2016/17 Budget £000	Actual £000	2017/18 Budget £000
<b>Administrative costs</b>								
Staff costs	449	656	500	692	551	769	586	807
Premises	42	42	42	42	46	49	66	52
IT	154	191	164	173	186	192	209	317
Supplies and services	181	173	172	183	174	220	182	205
Other central costs	32	52	55	51	41	59	47	60
Cost of democracy	-	-	-	-	-	-	-	-
Other	-	-	-	-	4	-	43	-
	<b>858</b>	<b>1,114</b>	<b>933</b>	<b>1,141</b>	<b>1,002</b>	<b>1,289</b>	<b>1,133</b>	<b>1,441</b>

<b>Oversight &amp; governance costs</b>								
Staff costs	107	138	131	142	140	181	189	193
Audit fees	20	24	21	24	24	25	24	38
Actuarial fees	260	95	187	117	199	213	326	214
Pension Committee/Board	1	-	1	1	1	3	1	5
Performance monitoring service	38	18	38	19	37	39	23	39
Investment consultancy	23	20	20	20	20	21	20	21
Other professional fees	9	29	9	31	54	44	111	350
	<b>458</b>	<b>324</b>	<b>407</b>	<b>354</b>	<b>475</b>	<b>526</b>	<b>694</b>	<b>860</b>

Actual actuarial fees within Oversight & Governance contain actuarial expenses of £135,000 (2015/16 £110,000) which arose as a result of employer requests and was therefore recharged back to them. Net actuarial fees for 2016/17 were £191,000 (2015/16 £89,000).

The increases in the staffing budgets in Administration and Oversight & Governance between 2015/16 and 2016/17 were as a result of a job evaluation review and the re-grading of a number of officers.

The increase in the budget for Other professional fees in Oversight & Governance between 2016/17 and 2017/18 is as a result of increased professional fees relating to the Government's investment pooling initiative.

	2013/14 Actual £000	2014/15 Budget £000	Actual £000	2015/16 Budget £000	Actual £000	2016/17 Budget £000	Actual £000	2017/18 Budget £000
<b>Investment management expenses</b>								
Management fees	3,752	4,206	4,733	4,594	4,902	4,913	4,953	4,562
Performance fees	1,915	734	598	836	463	775	377	578
Transaction costs	345	-	350	-	695	-	1,228	-
Custody fees	62	84	72	96	76	78	118	90
Tax & legal costs	-	-	-	-	-	-	22	-
	<b>6,074</b>	<b>5,024</b>	<b>5,753</b>	<b>5,526</b>	<b>6,136</b>	<b>5,766</b>	<b>6,698</b>	<b>5,230</b>

Transaction costs cannot be forecast in advance and hence are not budgeted for. The £1.2m transaction costs in 2016/17 related to the full transition of investments from one global equity mandate to another manager.

## Financial Summary

	2012/13	2013/14	2014/15	2015/16 re-stated**	2016/17
	£m	£m	£m	£m	£m
Contributions and investment income *	107.5	116.4	122.7	124.3	<b>140.0</b>
Realised profit/(loss)	13.3	13.0	21.0	14.1	<b>237.9</b>
Less benefits and other expenses *	(74.6)	(88.6)	(110.6)	(82.8)	<b>(88.7)</b>
Annual surplus/(shortfall)	46.2	40.8	33.1	55.6	<b>289.2</b>
Increase/(decrease) in market value of investments	133.4	80.9	169.5	(62.2)	<b>96.9</b>
Increase/(decrease) in Fund during year	179.6	121.7	202.6	(6.6)	<b>386.1</b>
<b>Market Value of net assets at 31st March</b>	<b>1,384.8</b>	<b>1,506.5</b>	<b>1,709.1</b>	<b>1,702.5</b>	<b>2,088.6</b>

\* Excludes recoverable expenditure

\*\* The accounting treatment of expenses has changed, as per guidance received from the Chartered Institute of Public Finance and Accountancy (CIPFA), figures for 2015/16 have been re-stated to enable a meaningful comparison between 2015/16 and 2016/17.

## Analysis of pension overpayments

	2014/15 £000	2015/16 £000	2016/17 £000
Pension overpayments b/fwd.	7.6	23.5	29.1
Pension overpayments in the current year	38.6	29.8	88.4
Overpayment recovered	(21.9)	(24.1)	(50.2)
Overpayments written off	(0.9)	(0.2)	-
Pension overpayments c/fwd.	23.4	29.0	67.3

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 October 2016 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.

Match reports were reviewed and additional information sought as necessary. The reports identified

50 pensioners who had died where the Pensions Section had not been informed of their death, although in 18 of these cases the pension had already been suspended. This is the reason for the increase in the overpayments identified during the year. Although the vast majority of the overpayments were of a minor nature, invoices have been raised to recover them all, and the expectation is that the vast majority will be repaid.

## > Administrative Management Performance

### Key administration performance indicators

The Pension Fund has a number of local performance targets which are included within the Pension Administration Strategy report, and are detailed in the table below. The table shows the levels of achievement for the last five years.

Activity	Target	2012/13	2013/14	2014/15	2015/16	2016/17
<b>Annual Benefit Statements sent by statutory deadline:</b>		31/10/13	31/10/14	31/08/15	31/08/16	<b>31/08/17</b>
	100%	100%*	100%*	0%**	100%*	Anticipate <b>100%*</b>
<b>Provide retirement estimates within 15 working days</b>						
Total completed		655	531	646	693	<b>669</b>
Completed on time		594	428	505	228	<b>442</b>
Achievement	90%	90.7%	80.6%	78.2%	32.9%	<b>66.1%</b>
<b>Pay retirement grants within 15 working days</b>						
Total completed		739	745	707	650	<b>807</b>
Completed on time		716	721	634	151	<b>285</b>
Achievement	90%	96.9%	96.8%	89.7%	23.2%	<b>35.3%</b>
<b>Pay death grants within 8 working days</b>						
Total completed		65	57	40	55	<b>59</b>
Completed on time		58	54	39	6	<b>32</b>
Achievement	90%	89.2%	94.7%	97.5%	10.9%	<b>54.2%</b>
<b>Pay refunds within 15 working days</b>						
Total completed		n/a	n/a	n/a	n/a	<b>290</b>
Completed on time		n/a	n/a	n/a	n/a	<b>203</b>
Achievement	90%	n/a	n/a	n/a	n/a	<b>70%</b>
<b>Pay transfer values within 15 working days</b>						
Total completed		n/a	n/a	n/a	n/a	<b>71</b>
Completed on time		n/a	n/a	n/a	n/a	<b>55</b>
Achievement	90%	n/a	n/a	n/a	n/a	<b>77.5%</b>

\* Where all necessary information/clarification received from member's employer.

\*\* This was the result of the fund not receiving the majority of necessary employer pay data in time. The 2014 LGPS introduced substantial change and additional requirements of employers and fund administrators alike. Statements were issued by 30th November 2015.

From the performance figures above it can be seen that, although performance improved slightly in 2016/17 compared with 2015/16, it is significantly lower than the performance levels achieved under pre April 2014 scheme. The reason for this is due to the increased complexities of the new scheme, which have now been recognised, with staffing levels within the Pensions Administration team having now been increased to take account of these increased complexities.



## 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:

	2012/13 %	2013/14 %	2014/15 %	2015/16 %	2016/17 %
The forums had raised their understanding of current pension issues	88	83	83	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	94	78	88	89	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	100	72	95	93	100

## Complaints received

Type of complaint	2014/15	2015/16	2016/17
System error	-	-	-
Staff error	1	-	-
Staff attitude	-	-	-
<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Total as % of workload</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>

## > Financial Indicators

### Scheme Administration Costs

The Pension Fund subscribes to the annual CIPFA Benchmarking Survey. The results for 2016/17 were not available at the time of publication; however survey results for 2015/16 shows that our administration costs per member were £12.89 compared to the average cost of £18.37 per member of all the Funds within the survey. This placed the Fund in the lowest cost quartile.

Cost per member	2012/13 £	2013/14 £	2014/15 £	2015/16 £
Fund cost	14.40	13.08	13.45	12.89
Group average	20.87	20.75	19.17	18.37
Difference	(6.47)	(7.67)	(5.72)	(5.48)

## Investment Management Costs

	2012/13	2013/14	2014/15	2015/16	2016/17
**	£ re-stated	£ re-stated	£ re-stated	£ re-stated	£
<b>Cost per member</b>	66.23	109.54	*108.13	*109.78	114.56

\* Pension Fund expenses have been accounted for in accordance with the CIPFA guidance, Accounting for Local Government Pension Scheme Management Costs. In accordance with this guidance, from 2014/15 transaction costs previously included within the purchase cost/proceeds of investment purchases and sales have been added to Investment Management Costs with a corresponding offset against Profit on Disposal of Investments.

\*\* Membership numbers on the following page now include unprocessed leavers and the investment management cost per member has been re-calculated to include those people.

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.

From 2014/15 a third category of expense, Oversight & Governance, has been added and some costs previously included within Administration Costs and Investment Management Costs now come under this category.

## Oversight and Governance Costs

	2014/15	2015/16	2016/17
**	£ re-stated	£ re-stated	£
<b>Cost per member</b>	7.65	8.50	11.87

\*\* Membership numbers on the following page now include unprocessed leavers and the oversight and governance cost per member has been re-calculated to include those people.

## Key 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.

	2012/13	2013/14	2014/15	2015/16	2016/17
Number of full time equivalent Pension Fund staff	9.8	9.8	10.6	10.8	<b>11.8</b>
Total fund membership	48,524	51,470	53,203	55,891	<b>58,465</b>
Number of fund members to one member of administration staff	4,951	5,252	5,019	5,175	<b>4,954</b>

## > Membership Summary

	2012/13	% diff	2013/14	% diff	2014/15	% diff	2015/16	% diff	2016/17
Contributors	16,877	+6.27	17,936	+1.14	18,141	+2.70	18,630	+1.91	<b>18,986</b>
Pensioners	12,788	+5.15	13,446	+2.03	13,719	+3.56	14,207	+3.47	<b>14,700</b>
Deferred pensioners	15,339	+6.31	16,307	+5.48	17,201	+5.51	18,149	+3.25	<b>18,738</b>
	45,004	+5.97	47,689	+2.88	49,061	+3.92	50,986	+2.82	<b>52,424</b>
Undecided/ unprocessed leavers	3,520	+7.41	3,781	+9.55	4,142	+18.42	4,905	+23.16	<b>6,041</b>
	<b>48,524</b>	<b>+6.07</b>	<b>51,470</b>	<b>+3.37</b>	<b>53,203</b>	<b>+5.05</b>	<b>55,891</b>	<b>+4.61</b>	<b>58,465</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	18
M	under 15	0	0	0	11
F	15 to 19	94	1	0	17
M	15 to 19	57	3	0	31
F	20 to 24	555	230	0	25
M	20 to 24	263	141	0	18
F	25 to 29	803	781	0	2
M	25 to 29	361	401	0	2
F	30 to 34	1,098	1,147	0	0
M	30 to 34	326	491	0	0
F	35 to 39	1,520	1,468	2	3
M	35 to 39	345	478	0	1
F	40 to 44	2,069	1,757	2	3
M	40 to 44	357	436	0	5
F	45 to 49	2,915	2,571	19	15
M	45 to 49	478	598	5	15
F	50 to 54	2,907	3,042	33	19
M	50 to 54	541	692	19	25
F	55 to 59	2,067	2,497	313	39
M	55 to 59	522	698	120	56
F	60 to 64	996	925	1,765	73
M	60 to 64	371	232	720	68
F	65 to 69	200	97	2,531	107
M	65 to 69	96	29	1,233	72
F	70 to 74	22	9	1,706	167
M	70 to 74	23	13	1,022	92
F	75 to 79	0	1	993	210
M	75 to 79	0	0	619	85
F	80 to 84	0	0	531	221
M	80 to 84	0	0	391	70
F	85 to 89	0	0	297	191
M	85 to 89	0	0	214	46
F	90 to 94	0	0	116	138
M	90 to 94	0	0	85	13
F	95 to 99	0	0	29	38
M	95 to 99	0	0	22	0
F	100 to 104	0	0	3	8
M	100 to 104	0	0	2	0
F	105 to 109	0	0	1	1
M	105 to 109	0	0	1	0
F	110 to 114	0	0	0	1
<b>Total Members</b>	<b>52,424</b>	<b>18,986</b>	<b>18,738</b>	<b>12,794</b>	<b>1,906</b>

## > Management Report

### The Pension Scheme

The Local Government Pension Scheme (LGPS) is governed by statutory regulations. The statutory responsibility of the LGPS is with the department of Communities and Local Government (CLG). For the period covered by this report the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended by LGPS (Amendment) Regulations 2015) were in operation. The LGPS is a statutory funded scheme and was on a final salary basis until the 31st March 2014 when it went to a C.A.R.E. scheme (career average revalued earnings) and the benefits are defined and guaranteed by law. Any changes to the legislation of the scheme are governed by CLG – See page 132 to 133 for benefit changes since 1st April 2014.

The scheme applies to employees of local authorities and certain other bodies providing a public service. Teachers, police officers and fire officers have their own pension schemes and are excluded from this Fund. Under the LGPS Regulations, Gloucestershire County Council administers the Pension Fund in the county on behalf of its own employees and those of a number of other public bodies, in particular District

Councils. Within the County Council, staff from Strategic Finance are responsible for the investment administration of the Fund supported by the Fund's Global Custodian, BNY Mellon Asset Servicing, who provides custody and accounting support. The Fund is a member of the PLSA (Pensions and Lifetime Savings Association) formerly the NAPF (National Association of Pension Funds) and delegates voting rights to fund managers to exercise these rights in line with PLSA or PIRC (Pensions and Investment Research Consultants) proxy voting guidelines. Details of the Fund's investment managers and their mandates are detailed on page 24 of this report. A list of participating

employer bodies within the Fund is shown on pages 19 to 22.

The Fund is financed by contributions from employees and employers, together with proceeds from investments. Contributions in the financial statements represent those amounts receivable from various employing authorities in respect of their own contributions and those of their pensionable employees.

### Employee Contributions

Employee contributions are prescribed by statute and are based on pay bands. The pay bands and rates applicable from April 2016 are detailed below:

Pensionable Pay	Employee Contribution Rate %
Up to £13,600	5.5
£13,601 to £21,200	5.8
£21,201 to £34,400	6.5
£34,401 to £43,500	6.8
£43,501 to £60,700	8.5
£60,701 to £86,000	9.9
£86,001 to £101,200	10.5
£101,201 to £151,800	11.4
More than £151,801	12.5

Whilst these same rates will apply to the 2017/18 financial year, the pensionable pay banding levels have increased slightly.

### 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 2016, were announced in March 2017 and set the employers' contribution rates payable in each of the three years commencing 1st April 2017. The next actuarial valuation is due as at 31st March 2019, which will prescribe the employer rates from 1st April 2020.

The table overleaf summarises the whole fund Primary and Secondary Contribution rates at the 2016 valuation. Primary rates relate to future service liabilities whilst the secondary rate relates to past service deficit payments. These rates are the payroll weighted average of the underlying individual employer primary and 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 2017 to 31st March 2020	Secondary Rate £000		
	2017/18	2018/19	2019/20
19.6%	32,487	36,638	40,905

The table below shows the Fund “Common Contribution rate” as at 31st March for the previous three valuation periods for information purposes. Due to changes in the regulatory regime and guidance on contribution rates, comparison to the whole fund rate at 2016 is not appropriate.

Employer Contributions as a % of pay	31st March 2007	31st March 2010	31st March 2013
(a) Future Service Funding Rate	14.6%	15.5%	19.7%
(b) Past Service Adjustment	7.7%	10.3%	13.2%
<b>Total Common Contribution Rate</b>	<b>22.3%</b>	<b>25.8%</b>	<b>32.9%</b>

Further information regarding the valuation and the scheme’s funding position is included in the Actuarial Report on Fund on pages 35 to 36.

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 pages 132 to 133 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 2017 to 31st March 2020 may be found in the Funding Strategy Statement on pages 117 to 122.

2016/2017 Contributions	Employer Contributions	Employee Contributions	Total
<b>Administering Authority</b>			
Gloucestershire County Council*	39,564,946	7,776,364	47,341,310
<b>Scheduled Bodies</b>			
Cheltenham Borough Council	4,170,508	442,354	4,612,862
Cotswold District Council	2,521,801	504,075	3,025,876
Forest of Dean District Council	2,233,145	233,666	2,466,811
Gloucester City Council	3,808,150	364,848	4,172,998
Stroud District Council	3,619,429	592,954	4,212,383
Tewkesbury Borough Council	2,243,642	331,564	2,575,206
Cotswolds Conservation Board	83,499	26,921	110,420
Cheltenham Borough Homes	982,045	287,071	1,269,116
Farmors Sport Centre Ltd	10,146	2,176	12,322
Sir William Romneys Leisure	8,296	1,671	9,967
Gloucestershire Police Authority	4,310,905	1,299,371	5,610,276
Lower Severn Drainage Board	139,057	25,448	164,505
Parish and Town Councils (pooled)	476,504	111,450	587,954
University of Gloucestershire	3,360,236	1,032,946	4,393,182
Cirencester College	334,813	91,662	426,475

\* including schools

continued...



2016/2017 Contributions	Employer Contributions	Employee Contributions	Total
<b>Scheduled Bodies (continued)</b>			
Gloucestershire College	2,192,025	525,121	2,717,146
Hartpury College	1,036,991	328,100	1,365,091
<b>Academies</b>			
Abbey View CCT	16,494	5,054	21,548
All Saints	220,710	55,661	276,371
Balcarras School	224,962	56,344	281,306
Beaufort Academy	253,950	57,428	311,378
Berkeley Primary	33,301	6,464	39,765
Bishops Cleeve Primary	128,450	31,105	159,555
Blockley Primary Academy	34,722	7,666	42,388
Bourton on the Water	70,207	15,516	85,723
Brockworth Primary	75,803	19,159	94,962
Charlton Kings Infants School	82,292	16,821	99,113
Charlton Kings Junior School	77,562	14,343	91,905
Cheltenham Bournside School	305,496	63,348	368,844
Chipping Campden School	212,619	46,329	258,948
Chosen Hill School	254,599	50,016	304,615
Christ Church C of E	73,814	13,344	87,158
Churchdown School	304,975	56,808	361,783
Churchdown Village Infants	73,943	16,723	90,666
Cirencester Deer Park School	261,688	61,862	323,550
Cirencester Kingshill School	150,423	42,040	192,463
Cleeve School	246,225	58,100	304,325
Cotswold School	289,343	63,771	353,114
Crypt School	123,295	32,535	155,830
Dene Magna School	246,511	46,238	292,749
Diocese of Gloucester Academies Trust	23,512	10,322	33,834
Dursley Primary	61,254	12,905	74,159
Farmors Academy	143,551	35,118	178,669
Field Court C of E Infant School	107,975	22,290	130,265
Field Court C of E Junior School	68,503	11,680	80,183
Forest High School	107,761	20,984	128,745
Forest View Primary	74,774	14,705	89,479
Gloucester Academy	278,348	67,650	345,998
Gotherington Primary School	39,309	6,262	45,571
Green Field Academy	10,643	2,064	12,707
Gretton Primary School	19,689	4,394	24,083
Hardwicke Primary School	99,970	20,119	120,089
High School for Girls	136,453	30,565	167,018
Highnam C of E Primary School	33,076	7,888	40,964
Katherine Lady Berkeley School	288,445	56,595	345,040
Lakefield Primary Academy	38,368	7,312	45,680
Longney C of E Primary Academy	36,236	5,073	41,309
Marling School	139,489	32,840	172,329
Millbrook Academy	159,391	37,916	197,307
Minchinhampton Academy	52,977	12,798	65,775
Mitton Manor Primary Academy	37,722	8,593	46,315
Newent Community School	228,820	47,354	276,174

continued...

2016/2017 Contributions	Employer Contributions	Employee Contributions	Total
<b>Academies (continued)</b>			
North Cerney C of E Primary Academy	21,855	3,837	25,692
Offas Mead Primary	35,625	6,259	41,884
Pates School	206,854	75,951	282,805
Peak Academy	62,097	14,269	76,366
Primrose Hill Academy	50,657	10,289	60,946
Redmarley C of E School	9,049	1,728	10,777
Ribston Hall School	154,038	37,781	191,819
Robinswood Primary School	257,050	53,713	310,763
Rosary Catholic Primary School	46,819	9,966	56,785
Rowanfield Junior School	64,058	17,072	81,130
Severnbanks Primary	74,474	14,580	89,054
Severn Vale School	358,856	59,333	418,189
Severn View Primary	29,769	5,608	35,377
Sir Thomas Rich's School	142,287	28,852	171,139
Sir William Romney's School	127,049	25,027	152,076
Springbank Primary	74,111	20,483	94,594
St David's Primary	54,546	13,662	68,208
St Dominic's Catholic Primary School	21,546	4,616	26,162
St John's C of E Primary	66,781	12,338	79,119
St Mary's Catholic Primary School	57,040	14,462	71,502
St Peter's Catholic High School	363,938	80,154	444,092
Staunton and Corse C of E School	19,056	3,856	22,912
Stone with Woodford C of E Academy	18,853	3,625	22,478
Stroud High School	150,404	38,319	188,723
Tewkesbury School	336,406	68,429	404,835
The Dean Academy	218,996	41,198	260,194
The Ridge Academy	59,245	16,193	75,438
Thomas Keble School	180,794	39,030	219,824
Tredworth Infants Academy	74,965	16,061	91,026
Whiteshill Primary Academy	23,082	4,023	27,105
Winchcombe School	141,904	26,793	168,697
Winchcombe Abbey	52,855	11,900	64,755
Wyedean School	251,123	48,838	299,961
	<b>41,285,024</b>	<b>8,341,745</b>	<b>49,626,769</b>

### Admitted Bodies

Amey	242,560	69,259	311,819
APCOA	38,580	9,925	48,505
Aspire Sports and Cultural Trust	90,179	37,413	127,592
Barnardo's - Forest of Dean	40,940	6,128	47,068
Barnardo's - North	42,304	9,703	52,007
Barnardo's - South Glos.	66,911	21,185	88,096
Barnardo's - Tewkesbury	51,850	13,807	65,657
Brandon Trust	3,712	347	4,059
Brandon Trust (New contract)	45,079	4,784	49,863
Carers Glos. Parent Partnership	9,708	3,034	12,742
Carers Glos. Advice & Support	3,551	821	4,372
Cheltenham Leisure & Culture	254,488	82,337	336,825
Civica (FOD DC)	76,385	19,723	96,108

continued...

2016/2017 Contributions	Employer Contributions	Employee Contributions	Total
<b>Admitted Bodies</b> (continued)			
Civica UK Ltd	182,005	49,708	231,713
Civica UK Ltd - Glos City IT	15,036	5,474	20,510
Cotswold Archaeological Trust	165,258	44,551	209,809
Enterprise (Accord Operations Ltd)	171,516	54,433	225,949
Fosseway Housing Association	995,713	70,714	1,066,427
Gardners Lane & Oakwood Federation	208,568	69,019	277,587
Gloucester City Homes	543,756	167,840	711,596
Gloucestershire Airport	234,163	31,833	265,996
Gloucestershire Group Homes	140,270	17,872	158,142
Hill Valley & Vale Ltd	93,902	25,913	119,815
INTO University Partnerships	7,089	2,048	9,137
Gloucestershire Care Services NHS Trust	318,592	26,155	344,747
Kiddywinks	969	314	1,283
Lovell Partnership	101,096	16,106	117,202
The Orders of St John Care Trust	234,413	26,729	261,142
Places for People	30,664	11,516	42,180
Prospects Youth Service	603,963	195,413	799,376
Severnvale Housing Association	535,394	30,047	565,441
Skanska	10,244	3,373	13,617
Sport & Leisure Management	99,690	31,712	131,402
Stroud Court Community Trust	88,595	21,083	109,678
Tinies UK	52,835	12,581	65,416
Two Rivers Housing	219,827	86,371	306,198
UBICO LTD (Cheltenham)	641,814	118,413	760,227
UBICO LTD (Cotswolds)	14,504	4,411	18,915
UBICO LTD (FODDC)	25,211	6,023	31,234
UBICO LTD (Tewkesbury)	190,483	55,439	245,922
Wealdon Leisure (FODDC)	148,636	34,047	182,683
4Children (Cotswolds)	10,660	3,022	13,682
4Children (North Glos.)	21,236	5,958	27,194
	<b>7,072,349</b>	<b>1,506,584</b>	<b>8,578,933</b>
<b>Total contributions</b>	<b>87,922,319</b>	<b>17,624,693</b>	<b>**105,547,012</b>

\* including schools

\*\* includes ill health and early retirement contributions totalling £3.0m.

Some of the employers will include accruals for contributions due but not received as at 31st March 2017

## Comparison of investment performance with other LGPS

The Fund's investment performance is compared on an annual basis against other local authority pension funds subscribing to PIRC Local Authority Pension Performance based on the Analytics Universe of 60 local authority pension funds. The Fund was 28th in 2016/17.

Further details are given on pages 24 to 25 of this report.

The Fund's administration performance is benchmarked on an annual basis against other local authority pension funds subscribing to the CIPFA benchmarking service. Over

the previous ten years this has consistently shown the Fund's administration cost per member to be below the average cost of all the other funds which were benchmarked. Further details of the Fund's performance compared to other funds is given on page 14 of this report.

# 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 2016/17 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 38 to 41.

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 Statement of Investment Principles (SIP) on pages 123 to 129 of this report. This includes details of the Fund's agreed strategic asset allocation to the various investment markets.

The Fund's policy in respect of Socially Responsible Investment issues may be found on page 126 of the Statement of Investment Principles contained within this report.

The SIP will be replaced by the Investment Strategy Statement (ISS) from 1st April 2017 and this can be found at [www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments)

## 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 five investment managers, Standard Life Investments, BlackRock, Western Asset Management, Hermes Investment Management and CBRE who each manage portfolios within specific asset categories of the Fund's investments. In addition there was a small residual amount with GMO following a decision by the Pension Committee to disinvest from GMO and invest the money in additional funds managed by BlackRock, with a relatively small amount invested in two private equity/venture capital funds.

The Committee has adopted a fund-specific benchmark, and details of the Fund benchmark currently being used is shown on page 31. The benchmark represents the optimal investment portfolio distribution between asset classes to deliver the Fund back to 100% funding in accordance with the principles outlined in our Funding Strategy Statement.

The Fund's Investment Managers are:	Mandate	Bid Market Value 31st March 2017 £m
Standard Life Investments	UK Equities	388.8
	Global Multi Asset Absolute Return Fund	76.7
BlackRock	Global Equities Including Emerging Markets	561.2
	Emerging Markets	127.9
	Developed World	345.3
Western Asset Management	Global Fixed Interest	304.2
	Global Multi Strategy Fixed Interest	122.5
GMO	Global Equities Including Emerging Markets	0.6
Hermes Investment Management	UK Property Unit Trusts	98.4
CBRE	Global Property	44.0
YFM Group	Private Equity	1.9
Technology Venture Partners	Private Equity	3.5

Each manager is required to have regard for the Fund's Statement of Investment Principles, the Investment Strategy Statement from April 2017 and the legislative environment in which the Fund operates.

BNY Mellon Asset Servicing is the Fund's appointed global custodian. The appointment has been effective since January 2005.

## Fund Performance

Primarily, BNY Mellon Asset Servicing 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 2017 the Fund realised the opposite returns: >

	Fund % p.a.	Strategic Benchmark % p.a.
1 year	21.3	22.3
3 years	11.1	12.3
10 years	7.1	7.4

For general market background information the following shows rates of return achieved on representative market indices over the 12 months to 31st March 2017:

- Japan and Pacific Rim equities provided the best performance of the major equity asset categories, returning 35.3% and 35% respectively. Other equity markets also experienced strong performance in the last 12 months.

- UK equities returned 21.4%.
- UK bonds returned 10.8% and UK index linked bonds returned 18.2%.
- UK index linked bonds was the best performing category of the major fixed interest categories in 16/17 with a return of 18.2% followed by Non UK bonds at 14.8%.

- For another year Private Equity performed the best in Alternatives with a return of 19.6% followed by Infrastructure with a return of 17.7%
- At the end of March 2017 the UK Retail Price Index was 3.1% and the UK Consumer Price Index was 2.3%.

## Local Authority Universe

For 2016/17, 60 local authority funds (out of a total of 89 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 2016/17 was 21.4% (including property assets), placing Gloucestershire 28th out of the 60 funds.

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

The total Fund return of the Gloucestershire Fund compared

to other local authority returns placed the Gloucestershire Fund 28th out of 60 and 29th out of 60 over the three and ten year periods respectively.

Average returns over:	Local Authority Universe %
1 year	21.4
3 years	11.2
10 years	7.0

## Investment Performance

31st March 2017 investment returns over 12 months and 3 years as derived from the various asset categories in the Gloucestershire Fund compared to the specific performance benchmark used for each asset class:

	3 years		12 months	
	Fund %	Benchmark %	Fund %	Benchmark %
Equities	11.8	13.0	27.0	28.5
UK Bonds	9.3	9.2	12.0	9.2
Overseas Bonds	6.7	n/a	13.7	n/a
UK Index-Linked	15.7	14.6	22.1	22.0
Global Multi Sector	4.1	10.9	11.5	13.3
Property	12.3	10.2	6.7	3.3
Global Absolute Return	2.6	10.9	1.3	13.3
<b>Total Fund Return</b>	<b>11.1</b>	<b>12.3</b>	<b>21.3</b>	<b>22.3</b>

10 year returns are not available in the same format, by each major asset class. However, the 10 year total fund performance returns are shown on page 24. Performance returns by fund manager are shown on page 26.

Each mandate awarded over the asset categories has a targeted outperformance of their fund specific benchmark over a rolling 3 year period.



Investment performance by fund manager against benchmarks as at 31st March 2017, annualised for 1 and 3 years and since inception:

	Mandate	Benchmark	Since Inception		3 years		1 year	
			Portfolio %	B/mark %	Portfolio %	B/mark %	Portfolio %	B/mark %
Standard Life	UK Equity	FTSE All Share	7.2	7.6	5.0	7.3	15.9	20.0
Standard Life	Multi Asset Global Absolute Return	Composite UK/Overseas**	4.6	5.7	3.3	5.7	2.0	5.6
BlackRock	Global Equity Inc. Emerging Markets*	MSCI All Country World Index	10.8	10.0	16.8	15.7	33.2	32.2
BlackRock	Emerging Markets	MSCI Emerging Market Index	8.1	7.7	12.0	11.3	35.2	34.7
Western Asset	Global Fixed Interest	Composite UK/Overseas	7.2	7.4	10.6	10.9	13.9	13.3
Western Asset	Global Multi Strategy Fixed Interest	Composite UK/Overseas**	4.6	2.6	4.5	2.5	11.7	2.5
Hermes Investment	UK Property	IPD UK PPF Balanced PUT	6.8	4.7	13.0	10.7	6.7	4.6
CBRE	Global Property	IPD All Balanced Property Funds Index	9.9	8.5	10.4	10.8	5.1	5.3
GMO	Global Equity Inc. Emerging Markets	MSCI World Index	13.4	14.5	12.1	16.1	25.2	31.9

\* The new Global Fund commenced 8th March 2012 replacing the regional funds and their benchmarks. Both performance and benchmark returns, for the original regional funds, are included above to the end of February 2012.

\*\* These mandates are monitored against the benchmark of the investment (WAMCO – Global Fixed Interest) from where the original funding was taken.

## Asset Allocation – Planned compared to actual

	Strategic asset allocation target 2016/17 %	Actual asset allocation as at 31st March 2016 %	Actual asset allocation as at 31st March 2017 %
UK Equity	20.0	18.8	18.7
Emerging Markets	4.0	3.8	6.1
Global Equity	17.5	17.8	16.6
Global Equity Including Emerging Markets	23.5	24.9	27.0
<b>Total Equity</b>	<b>65.0</b>	<b>65.3</b>	<b>68.4</b>
<b>Global Fixed Interest (including Index Linked Securities) &amp; Global Multi Strategy Fixed Interest</b>	<b>22.0</b>	<b>21.8</b>	<b>20.5</b>
<b>UK and Global Property</b>	<b>7.5</b>	<b>7.9</b>	<b>6.8</b>
<b>Multi Asset Global Absolute Return</b>	<b>5.0</b>	<b>4.4</b>	<b>3.7</b>
<b>Cash &amp; Venture Capital</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Significant changes during the year:

Planned Strategic Asset Allocation – No changes.

## Asset Allocations

Snapshot of the Fund's actual investment exposure as at 31st March 2017 and 31st March 2016 expressed as a percentage of the Fund:

Total Fund	Gloucestershire Fund	
	31st March 2016 %	31st March 2017 %
UK Equities	20.9	<b>18.7</b>
Global Equities	43.7	<b>49.7</b>
Fixed Interest	21.4	<b>20.5</b>
Property	7.8	<b>6.8</b>
Global Multi Sector	4.5	<b>3.7</b>
Private Equity	0.3	<b>0.3</b>
Cash	1.4	<b>0.3</b>
	100.0	<b>100.0</b>

< As at 31st March 2017 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.

## Voting

The Fund supports the principles of best practice in corporate governance and delegates authority to the investment managers to exercise these voting rights. This delegation, during the period of this report, was in line with the PLSA, formerly NAPF, PIRC or other proxy voting guidelines. The investment managers are required to report their voting actions as part of their quarterly reports to the Pension Committee.

The voting activity of the Pension Fund during the financial year for directly held investments is summarised in the following table.

Where voting activity took place	Number of meetings	Number of resolutions			
		In total	Voted for	Voted against	Abstained
UK, Canada, Channel Islands, Germany, Ireland, Isle of Man & Spain	98	1,741	1,698	31	12

Blackrock, who is the manager of several of our pooled funds, publishes details of its corporate governance activities on the following link - <http://www.blackrock.com/corporate/en-gb/about-us/responsible-investment/responsible-investment-reports>.

In addition Standard Life, our UK equity manager, discloses all its voting in all markets on a monthly basis and these can be found at [http://www.standardlifeinvestments.com/governance\\_and\\_stewardship/what\\_is\\_corporate\\_governance/our\\_voting\\_records.html](http://www.standardlifeinvestments.com/governance_and_stewardship/what_is_corporate_governance/our_voting_records.html)

## Stewardship Code

Stewardship aims to promote the long term success of companies. Effective stewardship benefits the Fund, companies and the economy as a whole. During 2017 the Pension Fund is looking to sign up to the Code.

The UK Stewardship Code sets out seven principles of effective stewardship by investors and assists institutional investors better to exercise their stewardship responsibilities. These are set out in the following section.

Institutional investors should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when, and how they will escalate their activities as a method

of protecting and enhancing shareholder value.

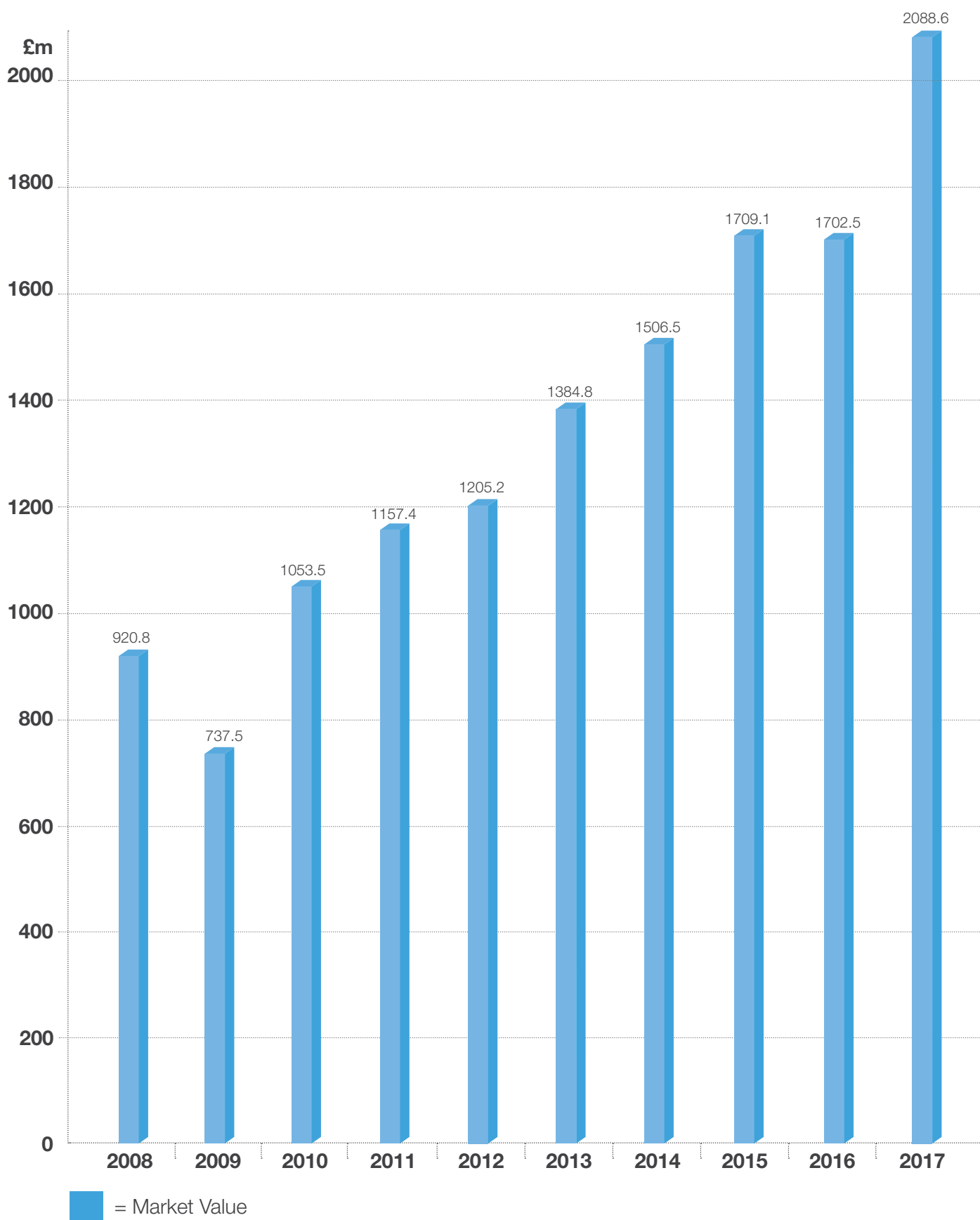
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

Details of the Fund's managers and whether they are signatories to the UK Stewardship Code are set out below.

Manager	Signatory to UK Stewardship Code	Notes
BlackRock Advisors (UK)	Yes	
CBRE Global Collective Investors	Yes	Although not relevant to the type of investment CBRE undertakes. CBRE is fully supportive of the Code and applies the stewardship principles to its dealings.
GMO	No	GMO has clearly articulated proxy voting policies which are integral to their investment process and which they believe capture the broader themes included in the Code.
Hermes Real Estate Investment Management	Yes	Hermes has signed up to the Code. However whilst the Code itself is focused on equities, Hermes applies similar stewardship principles to all asset classes, where appropriate, including real estate.
Standard Life Investments	Yes	
Western Asset Management	No	Not relevant because interest mandates.

## Value of Fund

The Fund's investments were valued at £2,088.6m at 31st March 2017, an increase of £386.1m from the beginning of the year. The chart below illustrates the movement in the market value of the Fund over the last ten years.



## Analysis of Investments as at 31st March 2017

31st March 2016 Re-stated £000	Geographical Analysis	31st March 2017 £000	%
759,133	United Kingdom	860,661	41.2
456,387	North America	629,657	30.1
159,867	Europe	197,533	9.5
92,125	Far East & Australia	99,792	4.8
157,428	Emerging Markets	222,612	10.7
77,563	Global	78,361	3.7
<b>1,702,503</b>		<b>2,088,616</b>	<b>100.0</b>

31st March 2016 £000	Sector Analysis	31st March 2017 £000	%
318,085	Equities UK	382,777	18.3
787,906	Overseas*	1,034,998	49.6
250,596	Bonds UK	254,686	12.2
113,317	Overseas*	160,898	7.7
119,972	Property Funds UK	126,449	6.0
12,999	Overseas	13,918	0.7
75,700	Multi Asset Global	76,646	3.7
24,717	Cash, Net Current Assets & Other Balances	37,808	1.8
-789	Derivatives	436	0.0
<b>1,702,503</b>		<b>2,088,616</b>	<b>100.0</b>

\* Pooled funds within these categories may incorporate some UK assets

## Main Holdings as at 31st March 2017

	Market Value £m	Fund %		Market Value £m	Fund %
<b>United Kingdom</b>					
Hermes Property Unit Trust	98.4	4.7	Treasury 1.25% 2055	12.2	0.6
Treasury 4.25% 2040	26.8	1.3	Vodafone Group	10.5	0.5
Prudential PLC	15.3	0.7	Treasury 4.25% 2039	10.4	0.5
Treasury 1.25% 2027	15.1	0.7	Barclays Bank PLC	10.3	0.5
Treasury 2% 2035	14.9	0.7	Imperial Brands	10.0	0.5
Treasury 1.875% 2022	13.9	0.7	Babcock International Group PLC	9.8	0.5
Treasury 1.125% 2037	12.9	0.6	Aviva PLC	9.6	0.5
Glencore PLC	12.8	0.6	BP PLC	9.5	0.5
Rio Tinto PLC	12.5	0.6	Treasury 1.25% 2032	9.5	0.5
Shire PLC	12.4	0.6	National Grid	9.0	0.4
<b>Overseas</b>					
BlackRock Global Equity Fund	561.2	26.9	Legg Mason Global Funds – WA GMS	122.5	5.9
BlackRock Aquila Life MSCI Developed World (Unhedged)	172.8	8.3	Standard Life Global Absolute Return Strategies	76.6	3.7
BlackRock Aquila Life MSCI Developed World (Hedged)	172.5	8.3	US Treasury Inflation Linked 1.375% 2044	10.6	0.5
Blackrock Emerging Markets Index Fund	127.9	6.1	Global Alpha Fund - CBREI	10.3	0.5
<b>Cash Instruments</b>					
Standard Life AAA Call Account	11.1	0.5	BNY Mellon Sterling Liquidity Fund	6.1	0.3

## 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 91 to 116.

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 page 97 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 page 97.



# Scheme Administration Report

## 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 these functions the Fund's administration and investment performance is benchmarked on an annual basis against other local authority pension funds subscribing to the CIPFA benchmarking service and the PIRC Local Authority Pension Performance Analytics' Universe of 60 local authority pension funds respectively. 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.

The County Council website (see web addresses on page 8) contains detailed documents and information on the following areas:

- All the Pension Fund's policy statements.
- The actuary's triennial valuation report at March 2007, March 2010, March 2013 and March 2016.
- Annual reports from 2007/08 to the present.
- 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.
- Employer pages providing an Employer's Administration Guide and associated forms/documentation together with other relevant information.

## 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. TPAS can be contacted on 0300 123 1047.

## 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. The Ombudsman can investigate and determine any complaint or dispute involving maladministration

of the scheme or matters of fact or law and his or her decision is final and binding (unless the case is taken to the appropriate Court on a point of law). Matters where legal proceedings have already started cannot be investigated by the Pensions Ombudsman. The Pensions Ombudsman can be contacted at 0207 630 2200.

More detailed information can be found on the pages of the Pension Section's website by using the following link [www.gloucestershire.gov.uk/lgpsmemberguides](http://www.gloucestershire.gov.uk/lgpsmemberguides) and downloading "Booklet 11 – Help with Pensions Problems". Alternatively, you can contact the Pensions Section by telephoning (01452) 328888.

Details of scheme member appeals during 2016/2017 are as follows:

One appeal was made against the Administering Authority during the 2016/2017 year. The appeal was made against the funds interpretation and implementation of the Regulations. The appeal was not upheld.

## Executive Summary on the Last Triennial Valuation

An actuarial valuation of the Fund was carried out as at 31st March 2016. The results are briefly summarised below.

### Funding Position

The table below summarises the financial position of the Fund at 31st March 2016 in respect of benefits earned by members up to this date.

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

The main reasons for the change in the funding level over the period were better than anticipated investment returns, receipt of deficit repair contributions and changes in mortality rates. Increases in the value placed on liabilities due to changes in market conditions have been partially offset by a change in approach to determining assumptions.

### Contribution Rates

The table opposite summarises the whole fund Primary and Secondary Contribution rates at the 2016 valuation. These rates are the payroll weighted average of the underlying individual employer primary and 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 2017 to 31st March 2020	Secondary Rate £000		
	2017/18	2018/19	2019/20
<b>19.6%</b>	32,487	36,638	40,905

The Primary rate also includes an allowance of 0.5% of pensionable pay for the Fund's expenses. The average employee contribution rate is 6.3% of pensionable pay.

Broadly, contributions required to be made by employers in respect of new benefits earned by members (the primary contribution rate) have increased as future expected investment returns have fallen.

The minimum contributions to be paid by each employer from 1st April 2017 to 31st March 2020 are shown in the Rates and Adjustment Certificate on pages 117 to 122.

The next triennial valuation will take place as at 31st March 2019. This will set the minimum contributions to be paid by each employer from 1st April 2020 to 31st March 2023.

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 valuation and monitoring

An interim monitoring report showed a funding level of 83.4% as at 30th June 2017.

The Fund continues to set life expectancy assumptions using

ClubVita, which is a specialised longevity company and provides 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 2016/17 extra contributions of £1.9m (£0.8m 2015/16) were collected from employers in connection with early retirements and £1.0m (£0.4m 2015/16) 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 25th February 2017. 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 return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. 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 still around a 67% chance that the Fund will return to full funding over 20 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 2016. This valuation revealed that the Fund's assets, which at 31st March 2016 were valued at £1,703 million, were sufficient to meet 79.7% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £435 million.

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 2017 to 31st March 2020 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 2016 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 2016 valuation were as follows:

<b>Financial assumptions</b>	<b>31st March 2016</b>
Discount rate	4.0%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

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 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	<b>Males</b>	<b>Females</b>
Current Pensioners	22.4 years	24.6 years
Future Pensioners*	24.0 years	26.4 years

\*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

## **Experience Over the Period Since 31st March 2016**

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31st March 2017.

The next actuarial valuation will be carried out as at 31st March 2019. The Funding Strategy Statement will also be reviewed at that time.

### **Douglas Green FFA**

For and on behalf of Hymans Robertson LLP  
4th May 2017

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

# Pension Board

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## 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 are included within the Fund's Governance Policy document on pages 41 to 46 of this Annual Report.

Employers, scheme members and the relevant unions were invited to be considered to become members of the Pension Board and the following were appointed.

### Employer representatives

Cllr. Nigel Moor (Gloucestershire County Council)

Kate Walton (to March 2017) John Wills (from March 2017) (University of Gloucestershire)

### Scheme member representatives

Owen Shaw

Jon Topping

Taking account of the relevant LGPS regulations and guidance, the Gloucestershire LGPS decided to also appoint an independent non voting chair of the Pension Board. An independent chair of the Pension Board can not 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 Pension Fund at the Oxfordshire LGPS, Sean Collins, to become chair of the Gloucestershire Pension Board.

The Board met on three occasions during the financial year 2016/17 and the areas they have focussed on include: the Pension Fund's Risk Register, Key Performance Indicators, the Fund's Business Plan, Scheme Costs and the continued development of proposals to meet the Government's requirement for LGPS Funds to pool their Pension Fund investments with other LGPS funds.

In addition to attending at meetings of the Board, Members of the Pension Board are also invited to attend joint training and update sessions with members of the Pension Committee and 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 a member of the Board attends the Committee 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 41 to 46 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 13th May 2016, 1st July 2016, 12th August 2016, 11th November 2016, 2nd December 2016 (Annual Meeting), 10th February 2017 and 29th March 2017.

## Pension Board

Membership of the Pension Board showing attendance at meetings and training received are shown in the matrix opposite.

Meetings were held on 22nd April 2016, 26th October 2016 and 24th March 2017.

The Fund has adopted the CIPFA Knowledge & Skills Framework to help assess and action the training needs of both Committee Members and Pension Fund Members. The Strategic Finance Director is responsible for ensuring training requirements are implemented.

Member	Voting Rights	Meetings Attended	Training Received Number of Days	
			From 2014/15 to 2016/17	During 2016/17
Cllr. R. Theodoulou	Yes	7	8	3
Cllr. D. Brown	Yes	7	3	1
Cllr. N. Cooper	Yes	6	6	3
Cllr. J. Gill	Yes	7	3	1
Cllr. C. Hay	Yes	6	2	1
Cllr. S. Parsons	Yes	6	7	3
Cllr. L. Stowe	Yes	4	4	1
P. Clark* (Scheme Member Rep.)	No	6	4	3

\*Peter Clark joined the Committee in August 2015.

Member	Meetings Attended	Training Received Number of Days	
		From 2015/16 to 2016/17	During 2016/17
S. Collins	3	2	1
Cllr. N. Moor	3	1	0
O. Shaw	3	1	1
J. Topping	3	2	1
K. Walton	3	2	1

## 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 Fund is managed efficiently. The following Governance Compliance Statement was reviewed in June 2017 and only minor updates

were made to the previous version. 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 41) 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 July 2017.

### 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 44 to 46.

## 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 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 & 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 42 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 5 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 following a selection process to be determined by the Constitution Committee members. The Chair of the Pension Board cannot be a Gloucestershire County Councillor.
- b) Two 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 following a selection process to be determined by the Constitution Committee members.

- c) Two 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 following a selection process to be determined by the Constitution Committee members.

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

## 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 re-nomination and re-selection.

**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 in liaison with the Constitution Committee 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.

## 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.

As a condition of appointment, Board members shall be required to enter into a confidentiality agreement with the County Council.

## 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 an additional meeting this 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.

## 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 Investment Strategy Statement.
- 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. Each January, submit a proposed work plan for the forthcoming financial year, to the Pensions Committee.

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 2016
<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 2016/17

### Statement of Responsibilities and Foreword to Accounts

The audited accounts and notes following on pages 49 to 84, 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.



**Jo Walker, CPFA**  
**Strategic Finance Director**  
**(and Section 151 Officer)**  
**28th July 2017**

## **Independent Auditor's Report to the Members of Gloucestershire County Council**

We have audited the Pension Fund financial statements of Gloucestershire County Council (the "Authority") for the year ended 31st March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

### **Respective Responsibilities of The Strategic Finance Director and Auditor**

As explained more fully in the Statement of Responsibilities, the Strategic Finance Officer (Chief Financial Officer) is responsible for the preparation of the Authority's Statement of Accounts, which includes the Pension Fund 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the Pension Fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the Audit of the Pension Fund Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Finance Director; and the overall presentation of the Pension Fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited Pension Fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements

or inconsistencies we consider the implications for our report.

### **Opinion on the Pension Fund Financial Statements**

In our opinion

- the Pension Fund financial statements present a true and fair view of the financial transactions of the Pension Fund during the year ended 31st March 2017 and of the amount and disposition at that date of the Fund's assets and liabilities; and
- the Pension Fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Opinion on Other Matters**

In our opinion, the other information published together with the audited Pension Fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited Pension Fund financial statements.

**Elizabeth Cave  
for and on behalf of  
Grant Thornton UK LLP,  
Appointed Auditor**

**Hartwell House  
55 – 61 Victoria Street  
Bristol BS1 6FT**

**28th July 2017**

## Fund Account for the year ended 31st March 2017

2015/16		2016/17		
£000		£000	£000	Note
<b>Contributions</b>				
-81,156	employer contributions	-87,923		N20
-17,292	members' contributions	-17,625		N20
-98,448			-105,548	N7
<b>Transfers in from other pension funds</b>				
-1,131	individual transfers from other schemes or funds	-7,100		
-	group transfers from other schemes or funds	-94		
-1,131			-7,194	
<b>Other income</b>				
-139	recoveries for services provided		-151	N22
<b>Benefits</b>				
62,087	pensions	63,551		N32
8,506	commutation of pensions and lump sum retirement benefits	12,244		
1,344	lump sum death benefits	858		
71,937			76,653	N7
<b>Payments to and on account of leavers</b>				
115	refunds to members leaving scheme or fund	135		
50	payments for members joining state scheme or fund	42		
2,200	individual transfers to other schemes or funds	3,146		
1,078	group transfers to other schemes or funds	338		N30
3,443			3,661	
-24,338	<b>Net (addition)/withdrawal from dealings with members</b>		-32,579	
7,613	<b>Management expenses</b>		8,525	N22 & N34
<b>Returns on investments</b>				
-24,696	investment income	-27,305		N15 & N34
-27	taxes on income	49		N3 & N15
48,019	Profit(-) and losses on disposal of investments and changes in market value of investments	-334,803		N4 & N34
23,296	<b>Net returns on investments</b>		-362,059	
6,571	<b>Net increase (-) / decrease in the net assets available for benefits during the year</b>		-386,113	
1,709,074	<b>Opening net assets of the scheme</b>		1,702,503	
1,702,503	<b>Closing net assets of the scheme</b>		2,088,616	



## Net Asset Statement as at 31st March 2017

2015/16		2016/17	
£000		£000	Note
<b>Investment assets</b>			
280,881	Bonds	280,713	N34
312,866	Equities	377,449	
952,078	Pooled investment vehicles	1,253,165	N34
127,532	Property unit trusts	133,718	N10 & N34
138	Derivative contracts	589	N2 & N17
5,219	Other investments - Venture Capital/Private Equity	5,328	N10
9,198	Cash held on behalf of the investment managers	21,509	
7,254	Other investment balances	5,522	
1,695,166		2,077,993	N14
<b>Investment liabilities</b>			
-927	Derivative contracts	-153	N2 & N17
-1,789	Other investment balances	-2,720	
-2,716		-2,873	N14
1,692,450	<b>Total Net Investments</b>	2,075,120	
<b>Long term assets</b>			
288	Contributions due from employers	334	
2,472	Other long term assets (debtors)	1,854	
2,760		2,188	N14 & N24
<b>Current assets</b>			
3,773	Contributions due from employers	5,132	
286	Other current assets	238	
618	Money due re. transfer of staff to another pension scheme	618	
4,321	Cash balances	7,160	N2, N23 & N27
8,998		13,148	N14 & N24
<b>Current liabilities</b>			
-10	Unpaid benefits	-4	
-1,695	Other current liabilities	-1,836	
-1,705		-1,840	N14 & N25
1,702,503	<b>Net assets of the scheme available to fund benefits at the period end</b>	2,088,616	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 2016/17

## 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 on pages 19 to 22.

The Local Government Pension Scheme is a statutory funded defined benefit pension scheme. Previously the Fund was “contracted out” of the state scheme but from the 1st April 2016 onwards all members have been contracted back into the state scheme in addition to being in the Pension Fund. 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 increased annually in line with the Consumer Prices Index.

The scheme is voluntary and made available to all (\*) employees except fire fighters, police and teachers (who have their own separate nationally-administered schemes). The Fund is financed by contributions paid in by the existing employees and their employers and by earnings from the investment of Fund monies. The number of contributors at 31st March 2017 was 18,986 (2016 18,630). 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)

A full analysis of membership, funding and benefits can be found in the Pension Fund’s Annual Report. 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 Pension 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.

## N2 Summary of significant accounting policies

### Basis of Preparation

The Statement of Accounts summarises the Funds’ transactions for the 2016/17 financial year and its position at year end as at 31st March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 so far

\* There are restrictions with some casual staff

as 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.

### **Investment Management Expenses**

The managers' fees have been accounted for on the basis contained within their management agreements. Broadly these are based on the market value of the investments under management and therefore increase or decrease as the value of these investments change. In addition the Fund has agreed with the following managers that an element of their fee be performance related:

- Standard Life Investments - UK Equities
- Hermes - Property Unit Trusts

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

responsibility of the managers and not the Fund.

### **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 from quoted securities are accounted for when the security 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**

Cash balances held in accordance with the County Council's Treasury Management Strategy and those held with the Fund's Custodian BNY Mellon, on behalf of investment managers, are in instant access accounts.

### **Valuation of Assets**

The SORP requires securities to be valued on a Fair Value Basis therefore assets, where there is an active and readily available market price, are valued at the bid price and liabilities on an offer price basis. Where assets do not actively trade through established exchange mechanisms a price is obtained from the manager of the investment asset. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates prevailing as at 31st March 2017. 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 net 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.

### 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. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. 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

2016/17 Asset Class	Market value at 31st March 2016	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value, new money and accruals	Market value at 31st March 2017
	£000	£000	£000	£000	£000
Bonds	280,881	33,311	-63,892	30,413	<b>280,713</b>
Equities	312,866	729,279	-700,784	36,088	<b>377,449</b>
Pooled Investments	952,078	769,902	-735,819	267,004	<b>1,253,165</b>
Property Unit Trusts	127,532	7,871	-2,450	765	<b>133,718</b>
Private Equity	5,219	-	-	109	<b>5,328</b>
	<b>1,678,576</b>	<b>1,540,363</b>	<b>-1,502,945</b>	<b>334,379</b>	<b>2,050,373</b>
Derivative contracts:					
Futures	-29	2,269	-3,673	1,653	<b>220</b>
Forward currency contracts	-760	-	-	976	<b>216</b>
	<b>-789</b>	<b>2,269</b>	<b>-3,673</b>	<b>2,629</b>	<b>436</b>
<b>Net investment assets</b>	<b>1,677,787</b>	<b>1,542,632</b>	<b>-1,506,618</b>	<b>337,008</b>	<b>2,050,809</b>

In addition to the investments there was £37,807k (£24,716k 2015/16) in cash and accruals. Cash movements, currency adjustments and other end of year settlements totalled -£2,205k (£4,853k re-stated 2015/16). As a result the total profit (-) and losses on disposal of investments and changes in market value of investments was -£334.8m (£48.0m re-stated 2015/16).

Please see note N34(a) for details of changes to comparable figures.

2015/16 Asset Class	Market value at 31st March 2015	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value, new money and accruals	Market value at 31st March 2016
	£000	£000	£000	£000	£000
Bonds	277,200	45,810	-34,464	-7,665	<b>280,881</b>
Equities	312,365	115,559	-92,476	-22,582	<b>312,866</b>
Pooled Investments*	978,743	17,256	-10,619	-33,302	<b>952,078</b>
Property Unit Trusts*	113,586	5,551	-1,232	9,627	<b>127,532</b>
Private Equity	4,587	135	-	497	<b>5,219</b>
	<b>1,686,481</b>	<b>184,311</b>	<b>-138,791</b>	<b>-53,425</b>	<b>1,678,576</b>
Derivative contracts:					
Futures	-46	725	-1,705	997	<b>-29</b>
Forward currency contracts	-316	-	-	-444	<b>-760</b>
	<b>-362</b>	<b>725</b>	<b>-1,705</b>	<b>553</b>	<b>-789</b>
<b>Net investment assets</b>	<b>1,686,119</b>	<b>185,036</b>	<b>-140,496</b>	<b>-52,872</b>	<b>1,677,787</b>

\*In addition to the investments there was £24,716k (£22,955k 2014/15) in cash and accruals. Cash movements, currency adjustments and other end of year settlements totalled £4,853 re-stated from £5,004k in 2015/16 (£6,196k 2014/15). As a result the total profit (-) and losses on disposal of investments and changes in market value of investments was £48.0m re-stated from £47.9m in 2015/16 (-£190.5m 2014/15).

An investment valued at £458k in 2015/16 was classified as a UK Property Unit Trust. Following further clarification this holding has now been deemed to be an Overseas Property Limited Liability

Partnership and the 2015/16 comparable figures have been amended to reflect that movement.

Please see note N34 (a & c) for details of changes to comparable figures.

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:

	2015/16		2016/17	
	£000	%	£000	%
Western Asset Management Company	370,280	21.7	<b>426,733</b>	<b>20.4</b>
BlackRock	486,382	28.6	<b>1,034,454</b>	<b>49.5</b>
CBRE	41,928	2.5	<b>44,039</b>	<b>2.1</b>
GMO	301,562	17.7	<b>582</b>	<b>0.0</b>
Standard Life Investments	394,396	23.2	<b>465,480</b>	<b>22.3</b>
Hermes Investment Management Property Unit Trust	92,629	5.4	<b>98,404</b>	<b>4.7</b>
Technology Venture Partners	3,056	0.2	<b>3,453</b>	<b>0.2</b>
Yorkshire Fund Managers (YFM)	2,163	0.1	<b>1,875</b>	<b>0.1</b>
<b>Total - External Managers</b>	<b>1,692,396</b>	<b>99.4</b>	<b>2,075,020</b>	<b>99.3</b>
In-house cash and accruals	10,053	0.6	<b>13,496</b>	<b>0.7</b>
Assets within the Transition account with the Custodian	-	-	<b>10</b>	<b>0.0</b>
Cash instruments with Custodian	54	0.0	<b>90</b>	<b>0.0</b>
	<b>1,702,503</b>	<b>100.0</b>	<b>2,088,616</b>	<b>100.0</b>

During 2016/17 a decision was made to dis-invest from GMO and after a portfolio reorganisation the assets were transferred to BlackRock.

Where the value of an investment exceeds 5% of the total value of net assets or 5% of its asset class, 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 2016 and established the minimum contribution payments for the three years until 31st March 2020. The next valuation will take place as at March 2019.

- The estimate of the Pension Fund liability is subject to significant variations, based on changes to the underlying assumptions used - see opposite.

- The results of the 2016 valuation gave a primary rate of 19.6% for the period 1st April 2017 to 31st March 2020 together with a secondary rate of £32,487k in 2017/18, £36,638k in 2018/19 and £40,905k in 2019/20. At the previous formal valuation at 31st March 2013, a different regulatory regime was in force, therefore a contribution rate that is directly comparable to the rates above is not provided. 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 2016 actuarial valuation report and the Funding Strategy Statement on the Fund's website. This rate of contribution is the rate which, in addition to the contributions paid by the members, should be sufficient to meet:

- 100% of the liabilities arising in respect of service after the valuation date;
- plus an adjustment over a period of 17 years (20 years for Primary Rate) to reflect the shortfall of the value of the County Council's notional share of the Fund's assets over 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases.
- The market value of the Fund's assets at the March 2016 triennial valuation date was £1,703m (£1,385m March 2013) and represented 79.7% (70.1% March 2013) of the Fund's accrued liabilities, allowing for future pay increases. When a valuation reveals a deficiency, the employer contribution rates are adjusted to target restoration of a solvent position over a period of



years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Scheme Actuary and employer, with a view to balancing the various funding

requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

calculated using the projected evolution of each employers' section of the Fund and the main actuarial assumptions used are as follows:

- The contribution rate has been

	Funding Basis	
	2013	2016
Rate of return on investments (Discount Rate)	4.6% pa	<b>4.0% pa</b>
Rate of general pay increases*	3.8% pa	<b>2.4% pa</b>
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	2.5% pa	<b>2.1% pa</b>

\* Plus an allowance is also made for promotional pay increases.

- The full actuarial valuation reports for 2007, 2010, 2013 and 2016 are published on the County Council's website and can be viewed using the following web address:

**[www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments)**

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

## N7 Analysis of Contributions Receivable and Benefits Payable

	2015/16		2016/17	
	Contributions receivable £000	Benefits payable £000	Contributions receivable £000	Benefits payable £000
Gloucestershire County Council (Administering Authority)	43,845	40,112	<b>47,342</b>	<b>42,054</b>
Scheduled Bodies (146 16/17) (144 15/16)* (Bodies admitted by right)	45,686	28,732	<b>49,627</b>	<b>30,722</b>
Admitted Bodies (43 16/17) (40 15/16)* (Bodies admitted by agreement)	8,917	3,093	<b>8,579</b>	<b>3,877</b>
	<b>98,448</b>	<b>71,937</b>	<b>105,548</b>	<b>76,653</b>

\* These numbers relate to active employers with active members.

Scheduled Bodies now include 80 (78 15/16) schools who have converted to academy status.

## N8 Statement of Investment Principles

A Statement of Investment Principles, which sets out the Pension Fund's long-term investment objectives, its style of management and policies together with risk management, performance targets and details of how that performance is monitored and reviewed, can be found on pages 123 to 129.

The Statement of Investment Principles was in place during the reporting period of these accounts, however on the 1st April 2017 it was superseded by an Investment Strategy Statement. The Pension Fund's Investment Strategy Statement is available to view on the County Council's website at **[www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments)**

## 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.

	2015/16 £000	2016/17 £000
Administrative expenses	1,553	1,968

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 Director: Strategic Finance's remuneration costs were recharged to the Fund to reflect time spent. These consisted of salary, fees and allowances of £10,921 (£10,813 2015/16) and employers' pension contributions of £3,047 (£2,801 2015/16).

The Director: Strategic Finance is a member of the Fund as a contributing Gloucestershire County Council employee. This does not impact on her role as Finance Director and S151 officer, which is clearly defined.

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.

Five members of the Pension Committee, excluding the District Council Representative, are also District Council members and these are detailed below:

Member	District Council
Cllr. D. Brown	Gloucester City Council
Cllr. C. Hay	Cheltenham Borough Council
Cllr. L. Stowe	Cotswold District Council
Cllr. R. Theodoulou	Cotswold District Council
Cllr. S. Parsons	Cotswold District Council

In addition Councillor L. Stowe is Cotswold District Council's nominated shareholder for Ubico Limited,

Councillor C. Hay sits on the Boards of Cheltenham Borough Homes and Cheltenham Leisure & Culture Trust, a close relative of a Pension Committee member is in receipt of pension benefits and Councillor N. Cooper is a governor of Archway School. Ubico Limited, Cheltenham Borough Homes, Cheltenham Leisure & Culture Trust 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.

## N9a Key Management Personnel

The key management personnel of the Fund are the Section 151 Officer and the Head of Pensions position. The Section 151 Officer's costs have not been included as the Pension Fund is recharged on a time spent basis and her salary is accounted for in Gloucestershire County Council's accounts. Total remuneration payable to the Joint Heads of Pensions position, 1.3 full time equivalent (F.T.E.), (0.9 F.T.E. 2015/16) is set out below.

	2015/16 £000	2016/17 £000
Short-term benefits	64	99
Post-employment benefits	18	69
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	82	168

## N10 Contingent Liabilities and Contractual Commitments

The Fund has an investment within a private equity fund managed by Yorkshire Fund Managers and a global property portfolio managed by CBRE. 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 2015/16 £000</b>	<b>Outstanding liability 2016/17 £000</b>
Chandos Fund	<b>3,000</b>	151	<b>151</b>
CBRE	<b>30,000</b>	151	<b>151</b>
	<b>33,000</b>	302	<b>302</b>

### 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 (15/16 £38,504) has been recorded for possible additional contributions from ex members of staff, during 2017/2018 and future years.

### N12 Unquoted Holdings

The following holdings are unquoted:

<b>Pooled investment vehicles</b>	<b>2015/16 £000</b>	<b>2015/16 £000 re-stated</b>	<b>2016/17 £000</b>
Overseas equity unitised insurance policy	422,424	422,424	<b>561,170</b>
Global equity unitised insurance policy	-	-	<b>345,334</b>
Global multi asset unitised insurance policy	75,700	75,700	<b>76,646</b>
Global equity managed fund	301,562	301,562	<b>582</b>
UK property managed fund	-	-	<b>2,565</b>
UK property limited liability partnership	4,981	4,981	<b>3,947</b>
Overseas property limited liability partnership*	-	458	<b>138</b>
Overseas fixed interest limited liability partnerships	4,517	4,517	<b>11,208</b>
	809,184	809,642	<b>1,001,590</b>
<b>Property unit trusts</b>			
UK property unit trust*	22,820	22,362	<b>21,535</b>
Overseas property unit trust	12,541	12,541	<b>13,780</b>
	35,361	34,903	<b>35,315</b>
	844,545	844,545	<b>1,036,905</b>

\* An investment valued at £458k in 2015/16 was classified as a UK Property Unit Trust, following further clarification, this holding has now been deemed to be an Overseas Property Limited Liability Partnership and the 2015/16 comparable figures have been amended to reflect that movement. See Note N34 (c).

### N13 Stocklending

The Pension Funds' custodian has been authorised to release stock to third parties under a stock lending arrangement. At 31st March 2017 the value of stock out on loan was £22.7m (2015/16 £19.6m) of which £16.2m (£14.2m) was in UK equities, £6.3m (£4.9m) in UK and Overseas Government stock and £0.2m (£0.5m) in Corporate Bonds. Collateral of £25.0m (£20.7m) equal to 111% (106%) of stock out on loan was held in the form of UK, Austrian Sovereign

bonds, G10 Overseas Government debt, AAA rated fixed interest stock issued by Supranational bodies and a restrictive list of equities indices. 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				2015/16 £000	2016/17 £000	Note
<b>Bonds</b>						
UK	- Public Sector	- Quoted		155,854	<b>156,293</b>	N34(b)
	- Corporate	- Quoted		94,743	<b>98,394</b>	
Overseas	- Public Sector	- Quoted		23,455	<b>23,723</b>	
	- Corporate	- Quoted		6,829	<b>2,303</b>	
				280,881	<b>280,713</b>	N34(b)
<b>Equities</b>						
UK		- Quoted		312,866	<b>377,449</b>	
<b>Pooled investment vehicles</b>						
<b>Unit Trusts</b>						
Overseas	- Equities	- Quoted		63,921	<b>127,912</b>	
<b>Unitised Insurance Policies</b>						
Overseas	- Equities	- Unquoted*		422,424	<b>561,170</b>	
Global	- Equities	- Unquoted		-	<b>345,334</b>	
Global	- Multi Asset	- Unquoted		75,700	<b>76,646</b>	
<b>Other Managed Funds</b>						
O.E.I.C.'s	- Overseas Fixed Interest	- Quoted*		78,515	<b>123,663</b>	
	- Global Equities	- Unquoted		301,562	<b>582</b>	
	- UK - Property	- Unquoted		-	<b>2,565</b>	
<b>Limited Liability Partnerships</b>						
	- UK - Property	- Unquoted		4,981	<b>3,947</b>	
	- Overseas - Property	- Unquoted		458	<b>138</b>	N34(c)
	- Overseas Fixed Interest	- Unquoted		4,517	<b>11,208</b>	
				952,078	<b>1,253,165</b>	
<b>Property Unit Trusts</b>						
UK		- Quoted		92,629	<b>98,403</b>	
		- Unquoted		22,362	<b>21,535</b>	N34(b)
Overseas		- Unquoted		12,541	<b>13,780</b>	
				127,532	<b>133,718</b>	N10
<b>Derivative Contracts</b>						
Futures	- UK			-	<b>225</b>	
	- Overseas			29	<b>-</b>	
Forward Foreign Exchange Contracts				109	<b>364</b>	
				138	<b>589</b>	N17
<b>Other Investments</b>						
Venture Capital/Private Equity - UK				5,219	<b>5,328</b>	N10
<b>Cash (Managers)</b>						
Cash instruments	- UK			4,943	<b>17,187</b>	
	- Overseas			1,532	<b>1,534</b>	
Cash Deposits	- UK			2,336	<b>2,548</b>	
	- Overseas			387	<b>240</b>	
				9,198	<b>21,509</b>	
<b>Other Investment Balances</b>						
<b>Debtors</b>						
Outstanding settlement of investment transactions				2,979	<b>1,099</b>	
Accrued dividend income and tax reclaims due on dividend income				4,275	<b>4,423</b>	
				7,254	<b>5,522</b>	
<b>Total Financial Assets</b>				1,695,166	<b>2,077,993</b>	

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

<b>Financial Liabilities</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>Note</b>
<b>Derivative Contracts</b>			
Futures – UK	-58	-	
– Overseas	-	-5	
Forward Foreign Exchange Contracts	-869	-148	
	-927	-153	N17
<b>Other Investment Balances</b>			
<b>Creditors</b>			
Outstanding settlement of investment transactions	-1,789	-2,720	
<b>Total Financial Liabilities</b>	-2,716	-2,873	
<b>Long Term Assets</b>			
Contributions due from employers	288	334	
Money due re. transfer of staff to another pension scheme	2,472	1,854	
	2,760	2,188	N24
<b>Current Assets</b>			
Contributions due from employers	3,773	5,129	
Other current assets (debtors)	286	241	
Money due re. transfer of staff to another pension scheme	618	618	
Cash balances	4,321	7,160	N23
	8,998	13,148	N24
<b>Current Liabilities</b>			
Unpaid benefits	-10	-4	
Other liabilities (creditors)	-1,695	-1,836	
	-1,705	-1,840	N25
	1,702,503	2,088,616	

Fixed interest securities and Index-linked securities, previously identified separately, are now amalgamated under the heading of Bonds.

There is no longer a requirement to separately identify same asset classifications between those managed

from within the UK and those managed from outside the UK. This has therefore been removed and assets combined where applicable.

Please see Note N34 (b) for more details.

## N15 Investment Income

Investment income arises from the following investment categories:

	2015/16 £000	2015/16 £000 re-stated	2016/17 £000
Fixed interest	6,853	-	-
Index-linked	1,825	-	-
	8,678		
Bonds	-	8,678	8,879
Equities	10,582	10,582	11,614
Pooled investment vehicles*	5,192	5,293	6,326
Interest on cash deposits	72	72	84
Private equity	-	-	300
Other income from stocklending, underwriting and class actions	71	71	102
	24,595	24,696	27,305
Withholding tax	27	27	-49
	24,622	24,723	27,256

\* The 2015/16 figure has been increased by £101k to incorporate property unit trust expenses which had been netted off dividend income at source. The investment management fees for 2015/16 have been increased as a consequence by £101k. Please see Note 34 (a) - Changes to Comparative Figures.

Fixed interest securities and Index-linked securities are now amalgamated under Bonds as per the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The totals for 2015/16 have therefore been amalgamated.

## 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 2016 £000	31st March 2017 £000
Prudential	7,227	7,195
Phoenix Life	60	52
	7,287	7,247

AVC contributions of £586k were paid directly to Prudential during the year (£602k 15/16) and included additional death in service premiums of £6k (£6k 15/16). No contributions were paid to Phoenix Life.



## 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 and options for duration and yield curve management purposes.

Additionally, the investment strategy for this manager, for all overseas currency exposures, is to be fully hedged back in 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 any 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.

In the table below the 'notional value' of the stock purchases under futures contracts is the economic exposure and the value subject to market movements as at 31st March 2017.

### Derivative Contract Analysis

	Contract type*	2015/16 Notional Value £000	2016/17 Notional Value £000	Expiration	2015/16 Market Value £000	2016/17 Market Value £000
<b>Investment Assets</b>						
<b>Futures</b>						
UK - Fixed Interest						
UK Long Gilt Future	ET	-	15,054	Less than 3 months	-	225
UK Futures		-	15,054		-	225
Overseas - Fixed Interest						
US Treasury Bond Future	ET	-3,663	-	Less than 3 months	29	-
Overseas Futures		-3,663	-		29	-
Total Futures		-3,663	15,054		29	225
<b>Forward foreign exchange contracts</b>	OTC	9,157	32,935	Less than 6 months	109	364
<b>Total Derivative Assets</b>		5,494	47,989		138	589
<b>Investment Liabilities</b>						
<b>Futures</b>						
UK - Fixed Interest	ET	20,850	-	Less than 3 months	-58	-
UK Futures		20,850	-		-58	-
Overseas - Fixed Interest						
US Treasury Bond Future	ET	-	-899	Less than 3 months	-	-5
Overseas Futures		-	-899		-	-5
Total Futures		20,850	-899		-58	-5
<b>Forward foreign exchange contracts</b>	OTC	43,167	24,612	Less than 6 months	-869	-148
<b>Total Derivative Liabilities</b>		64,017	23,713		-927	-153
<b>Net Futures</b>					-789	436

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

The total Futures' initial margin for 2016/17 was £0.3m (£0.4m 2015/16) and the total variation margin was -£0.01m (£0.4m 2015/16). The initial margin is an amount of money deposited by both buyers and sellers of Futures contracts to ensure performance of the terms of the contract. The variation margin reflects the accumulated cash flows from the daily marking to market that accrues in the futures broker's account.

A breakdown of the open forward foreign exchange contracts at 31st March 2017 is given below:-

#### Open Forward Currency Contracts at 31st March 2017

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to six months	GBP	5,673	SEK	62,173	99	
Up to six months	GBP	8,829	EUR	10,208	90	
Up to three months	JPY	462,320	USD	4,052	82	
Up to six months	GBP	3,843	USD	4,761	39	
Up to six months	GBP	2,509	EUR	2,894	29	
Up to six months	GBP	3,331	JPY	462,151	13	
Up to six months	GBP	4,673	USD	5,845	8	
Up to six months	GBP	311	JPY	43,007	2	
Up to six months	GBP	155	NZD	278	1	
Up to six months	GBP	364	HKD	3,527	1	
Up to six months	GBP	272	SGD	476		0
Up to six months	GBP	1,125	AUD	1,853		-1
Up to three months	GBP	1,454	EUR	1,710		-10
Up to six months	USD	2,150	GBP	1,736		-19
Up to six months	GBP	8,800	USD	11,067		-42
Up to six months	GBP	11,225	USD	14,143		-76
<b>Open forward currency contracts at 31st March 2017</b>					<b>364</b>	<b>-148</b>
<b>Net forward currency contracts at 31st March 2017</b>						<b>216</b>
<b>Prior year comparative</b>						
Open forward currency contracts at 31st March 2016					109	-869
Net forward currency contracts at 31st March 2016						-760

## N18 Investments Exceeding 5% of Total Net Assets or that Exceed 5% of their Asset Class

At 31st March 2017 the Pension Fund held five, (2015/16, three) investments that each exceeded 5% of the total value of the net assets of the scheme. These are detailed as follows:

Investments exceeding 5% of Total Net Assets	2015/16		2016/17	
	£000	%	£000	%
* BlackRock Global Equity Fund	422,424	24.8	<b>561,170</b>	<b>26.9</b>
* BlackRock Aquila Life MSCI Developed World (unhedged)	-	-	<b>172,816</b>	<b>8.3</b>
* BlackRock Aquila Life MSCI Developed World (hedged)	-	-	<b>172,518</b>	<b>8.2</b>
* BlackRock Emerging Markets Index Fund	**	**	<b>127,912</b>	<b>6.1</b>
* Legg Mason Global Funds - WA GMS	**	**	<b>122,525</b>	<b>5.9</b>
GMO World Equity Allocation Investment Fund	301,562	17.7	**	**
Hermes Property Unit Trust	92,629	5.4	**	**
	816,615	47.9	<b>1,156,941</b>	<b>55.4</b>

\* Indicates assets which are in excess of 5% of both net assets and their asset class for 2016/17

\*\*Investment held is below 5% of total net asset and/or asset class

*The BlackRock Global and Aquila Life Funds are Unitised Insurance Policies investing in global equities and the developed world, excluding emerging markets, respectively. Blackrock Emerging is a Unit Trust investing in emerging markets.*

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

*The GMO Investment Fund is an O.E.I.C. investing in global equities.*

*Hermes Property Unit Trust is a Property Unit Trust.*

Investments exceeding 5% of their Asset Class	2015/16		2016/17	
	£000	%	£000	%
<b>Bonds</b>				
Treasury 4.25% 2040	28,275	15.5	<b>26,792</b>	<b>9.5</b>
United Kingdom IL 1.25% 2027	13,580	<b>13.0</b>	<b>15,095</b>	<b>5.4</b>
United Kingdom IL 2.00% 2035	-	-	<b>14,887</b>	<b>5.3</b>
Treasury 3.75% 2021	14,470	7.9	-	-
Treasury 4.25% 2039	9,680	5.3	***	***
United Kingdom IL 1.875% 2022	14,809	14.2	***	***
Treasury IL Variable Rate 2035	13,002	12.5	***	***
United Kingdom IL 1.125% 2037	10,891	10.5	***	***
Treasury IL 1.25% 2055	9,560	9.2	***	***
US Treasury IL 1.375% 2044	9,105	8.7	***	***
United Kingdom IL 0.375% 2062	8,776	8.4	***	***
United Kingdom IL 1.25% 2032	8,287	8.0	***	***
Treasury IL 0.75% 2047	5,225	5.0	***	***

\*\*\*Previously Bonds were split between Fixed Interest Securities and Index-linked Securities meaning that some holdings which were in excess of 5% of their asset class in 2015/16 and listed above are not in excess of 5% of the new combined asset class in 2016/17.

Investments exceeding 5% of their Asset Class	2015/16		2016/17	
	£000	%	£000	%
<b>Pooled investment vehicles</b>				
* BlackRock Global Equity Fund	422,424	44.6	<b>561,170</b>	<b>44.8</b>
* BlackRock Aquila Life MSCI Developed World (unhedged)	-	-	<b>172,816</b>	<b>13.8</b>
* BlackRock Aquila Life MSCI Developed World (hedged)	-	-	<b>172,518</b>	<b>13.8</b>
GMO World Equity Allocation Investment Fund	301,562	31.9	<b>**</b>	<b>**</b>
* Legg Mason Global Funds - WA GMS	77,569	8.2	<b>122,525</b>	<b>9.8</b>
Standard Life Global Absolute Return Strategies Fund	75,700	8.0	<b>76,646</b>	<b>6.1</b>
* BlackRock Emerging Markets Index Fund	63,921	6.8	<b>127,912</b>	<b>10.2</b>
<b>Property unit trusts</b>				
Hermes Property Unit Trust	92,629	72.4	<b>98,403</b>	<b>73.6</b>
Global Alpha Fund	8,771	6.9	<b>10,304</b>	<b>7.7</b>
<b>Derivative futures contracts - assets</b>				
UK Long Gilt Future (ICF) Exp Jun 17	-	-	<b>225</b>	<b>100.0</b>
US Treasury Bond Future (CBT) Exp Jun 16	18	61.1	-	-
US Ultra Bond (CBT) Exp Jun 16	11	38.9	-	-
<b>Derivative futures contracts - liabilities</b>				
US Ultra Bond (CBT) Exp Jun 17	-	-	<b>-5</b>	<b>100.0</b>
UK Long Gilt Future (LIF) Exp Jun 16	-58	100.0	-	-
<b>Other investments - Venture Capital/Private Equity</b>				
South West Venture Fund	3,056	58.6	<b>3,453</b>	<b>64.8</b>
Chandos Fund	2,163	41.4	<b>1,875</b>	<b>35.2</b>

\*Indicates assets which are in excess of 5% of both net assets and their asset class for 2016/17.

\*\*Investment held is below 5% of total net asset and/or asset class

## 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 opposite.

## 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 opposite. The deficit funding contributions relate to past service benefit accrual

	2015/16 £000	2016/17 £000
Discretionary Payments	1,102	<b>1,088</b>

and are payable over an agreed recovery period, not exceeding 20 years.

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; however at 31st March 2017 £0.4m (2015/16 £0.04m) was due to the Pension Fund for early retirements, which have been accrued.

Excess ill health retirement costs are invoiced for as they arise and funding level payments are made by an employer voluntarily.

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 2017 use the valuations for the Fund's assets provided by our custodian, BNY Mellon Asset Servicing SA/NV. This reflects the position of the custodian who is ultimately the master book of record. Fund Managers must make sure that their records agree with those kept by the custodian, although the investment values may be obtained from different sources. 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 BNY Mellon Asset Servicing SA/NV on behalf of the Pension Fund, are ring-fenced from the assets of the Bank and segregated within its books as belonging to Gloucestershire County Council's Pension Fund.

Contributions Breakdown	2015/16 £000	2016/17 £000
<b>From Employers:</b>		
Normal	42,830	<b>43,436</b>
Augmentation	-	-
Deficit Funding	37,080	<b>41,485</b>
Other	1,246	<b>3,002</b>
	81,156	<b>87,923</b>
<b>From Members:</b>		
Normal	16,967	<b>17,319</b>
Additional Voluntary	325	<b>306</b>
	17,292	<b>17,625</b>

## N22 Management Expenses

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

The increase in Administration Expenses is largely due to an increase in overhead recharges and legal fees arising from employer queries. The increase in Oversight & Governance is mainly due to Pooling costs resulting from the Government's pooling of investment initiative and actuarial fees including those as a result of the triennial valuation.

Within Oversight and Governance costs there were actuarial expenses of £135,313 (£109,830 2015/16) 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.

Management expenses	2015/16 £000	2015/16 re-stated £000	2016/17 £000
Investment management expenses */**	6,186	6,136	<b>6,698</b>
Administration expenses	1,002	1,002	<b>1,133</b>
Oversight & governance	475	475	<b>694</b>
	7,663	7,613	<b>8,525</b>

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

\*\* Investment management expenses for 2015/16 previously £6,186k have been re-stated following new advice by the Chartered Institute of Public Finance & Accountancy (CIPFA). Fees from three pooled funds of £50k have been removed as they were the legal responsibility of the pooled fund rather than

a direct charge to the Pension Fund. In addition property unit trust expenses of £101k were discovered to have been netted off dividend income therefore these expenses have been added to the investment management expenses and dividend income has been increased by a corresponding amount. Please see note N34 (a). The re-stated figures on the more detailed breakdown of the Investment management expenses are given overleaf.

<b>Investment management expenses</b>	<b>2015/16 £000</b>	<b>2015/16 re-stated £000</b>	<b>2016/17 £000</b>
Fund value based management fees			
- invoiced	2,982	3,082	<b>3,237</b>
- deducted from investment	1,970	1,820	<b>1,716</b>
	4,952	4,902	<b>4,953</b>
Performance fee			
- invoiced	117	117	-
- deducted from investment	346	346	<b>377</b>
	463	463	<b>377</b>
	5,415	5,365	<b>5,330</b>
Transaction costs			
- equities		685	<b>1,222</b>
- derivatives		4	<b>3</b>
- pooled funds		6	<b>3</b>
	695	695	<b>1,228</b>
Custody costs	76	76	<b>118</b>
Tax and legal costs	-	-	<b>22</b>
	6,186	6,136	<b>6,698</b>

The management fees disclosed above 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.

Following poor performance the Pension Committee decided to move investments from one manager to another existing manager. The portfolio restructure resulted in increased transaction and custody costs and also incurred costs for tax advice and legal expenses.

### 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 £1,227,659 (£694,532 2015/16) 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 have increased in 2016/17 largely due to a re-organisation of investment managers which resulted in a large number of equities being sold and purchased to establish the new portfolio.

### N23 Cash

From the 1st April 2010 the Pension Fund has had its own bank account. At 31st March 2017 cash of £7.2m (£4.3m in 2015/16) was invested through the County Council's short-term investment procedures. During the year the average investment balance was £8.8m (£2.3m 2015/16) earning interest of £33.6k (£36.6k 2015/16).



## N24 Current & Long Term Assets

Current Assets	2015/16 £000	2016/17 £000
Contributions due - Employees	761	745
Contributions due - Employers	3,012	4,387
Sundry debtors	286	238
Money due re. transfer of staff to another pension scheme	618	618
	4,677	5,988
Cash balances	4,321	7,160
	8,998	13,148

### Analysis of debtors

#### Current assets

Central government bodies	955	1,095
Other local authorities	1,199	2,039
NHS bodies	14	223
Public corporations and trading funds	-	-
Academies	938	946
Bodies external to general government	1,571	1,685
	4,677	5,988

#### Long term assets

Central government bodies	2,472	1,854
Other entities and individuals	288	334
	2,760	2,188

One central government body has transferred to another pension fund and the resulting bulk transfer value due is being paid over a number of years. The total amount was credited to the Pension Fund and an accrual has been made for the outstanding amount. The accrual will be rolled forward each year and

adjusted for payments made. A payment of £618,000 is due to the Pension Fund within the next twelve months.

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 £3,000 is due to the Pension Fund within the next twelve months.

## N25 Current Liabilities

	2015/16 £000	2016/17 £000
Benefits payable	-10	-4
Sundry creditors	-1,695	-1,836
	-1,705	-1,840
<b>Analysis of creditors</b>		
Central government bodies	-649	-655
Other local authorities	-64	-189
Academies	-	-
Bodies external to general government	-992	-996
	-1,705	-1,840

## 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 2016.

### Balance Sheet

Year ended	31st March 2016 £m	31st March 2017 £m
Present Value of Promised Retirement Benefits	2,569	3,021

### Net Assets Available for Benefits

Year ended	31st March 2016 £m	31st March 2017 £m
Net Assets	1,703	2,089

The assumptions used are suitable for IAS19 purposes as required by the Code of Practice; these differ from those used at the 31st March 2016. It is estimated that the impact of the change of assumptions to 31st March 2017 is to increase the actuarial present value by £443m (15/16 decrease of £252m). It is estimated that the impact of the change in demographic and longevity assumptions decreased the actuarial present value by £11m.

## Significant Actuarial Assumptions Used

### Financial assumption:

Year ended	31st March 2016 % pa	31st March 2017 % pa
Inflation/Pension Increase Rate	2.2	2.4
Salary Increase Rate	3.7	2.7
Discount Rate	3.5	2.6

### Longevity assumption:

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to 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 2016

	Males Years	Females Years
Current Pensioners	22.5	24.6
Future Pensioners**	24.4	27.0

#### Longevity assumptions as at 31st March 2017

	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 most recent formal valuation as at 31st March 2016.

## Commutation assumption:

An allowance is included for future retirements to elect to take 35% (50% 2015/16) of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 68% (75% 2015/16) 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 opposite:

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%.

## 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

Sensitivity to the assumptions for the year ended 31st March 2017	Approximate % increase to liabilities	Approximate monetary amount
	%	£m
0.5% p.a. increase in the Pension Increase Rate	8	234
0.5% p.a. increase in the Salary Increase Rate	2	60
0.5% p.a. decrease in the Real Discount Rate	10	299

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 manager and considers and takes advice on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who acts 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 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 2017. 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 2017 by the amounts shown below:

As at 31st March 2017	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
UK Bonds	153,305	7.9	165,477	141,132
UK Index Linked Gilts	101,382	13.2	114,795	87,969
Overseas Bonds	160,898	6.2	170,938	150,858
UK Equities	377,449	9.7	413,986	340,912
Multi National Equities	1,111,644	9.9	1,221,696	1,001,591
UK Property	126,449	2.1	129,079	123,819
Overseas Property	13,918	15.7	16,107	11,728
Venture Capital/Private Equity	5,328	7.0	5,699	4,957
	<b>2,050,373</b>		<b>2,237,777</b>	<b>1,862,966</b>
Total Gloucestershire Fund	<b>2,050,373</b>	<b>6.7</b>	<b>2,187,543</b>	<b>1,913,203</b>

As at 31st March 2016 re-stated*	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
UK Bonds	158,406	6.9	169,352	147,460
UK Index Linked Gilts	92,190	10.0	101,437	82,943
Overseas Bonds	113,317	6.0	120,184	106,450
UK Equities	312,866	10.1	344,465	281,266
Multi National Equities	863,606	9.8	947,894	779,318
UK Property	119,972	2.0	122,431	117,513
Overseas Property	12,999	14.6	14,899	11,099
Venture Capital/Private Equity	5,219	14.5	5,973	4,465
	<b>1,678,575</b>		<b>1,826,635</b>	<b>1,530,514</b>
Total Gloucestershire Fund	<b>1,678,575</b>	<b>7.1%</b>	<b>1,796,915</b>	<b>1,560,236</b>

\*Some holdings have been moved to different categories and the comparable figures for 2015/16 have been re-stated to reflect that.

As at 31st March 2016	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
UK Bonds	169,897	6.9	181,636	158,157
UK Index Linked Gilts	92,190	10.0	101,437	82,943
Overseas Bonds	101,827	6.0	107,997	95,656
UK Equities	312,866	10.1	344,465	281,266
Multi National Equities	863,606	9.8	947,894	779,318
UK Property	120,429	2.0	122,898	117,961
Overseas Property	12,541	14.6	14,375	10,708
Venture Capital/Private Equity	5,219	14.5	5,973	4,465
	1,678,575		1,826,675	1,530,474
Total Gloucestershire Fund	1,678,575	7.1%	1,796,915	1,560,236

### 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 2017 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, have averaged 2.69% (2015/16 3.05%) and moved between a high of 3.64% (4.4% 2015/16) and a low

of 1.13% (2% 2015/16). As at the end of March 2017 this yield was 1.65% (2.2% 2015/16). 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 2017 £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	7,160	-	-
Cash and cash equivalents held on behalf of the Fund	21,509	-	-
Bond Portfolio - Fixed Interest Securities excluding cash	417,394	-45,528	45,528
	446,063	-45,528	45,528

Assets exposed to interest rate risk	Carrying amount as at 31st March 2016  £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	4,321	-	-
Cash and cash equivalents held on behalf of the Fund	9,198	-	-
Bond Portfolio - Fixed Interest Securities excluding cash	362,380	-43,491	43,491
	375,899	-43,491	43,491

### 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 8.5% (as

measured by one standard deviation).

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

A 8.5% 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:

2016/17 Currency exposure - Asset Type	Asset value as at 31st March 2017 £000	Change to net assets available to pay benefits	
		£000 +8.5%	£000 -8.5%
Global Fixed Interest	-	-	-
UK Equities	316	343	289
Global Equities	181,309	196,720	165,898
Emerging Market Equities	127,912	138,785	117,039
	<b>309,537</b>	<b>335,848</b>	<b>283,226</b>



2015/16 Currency exposure - Asset Type	Asset value as at 31st March 2016	Change to net assets available to pay benefits	
	£000	£000	£000
		+6.3%	-6.3%
Global Fixed Interest	432	460	405
UK Equities	449	477	421
Global Equities	688,006	731,350	644,662
Emerging Market Equities	64,144	68,185	60,103
	<b>753,031</b>	<b>800,472</b>	<b>705,591</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 Fund manages its 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 2017 is set out overleaf.

<b>Credit Analysis 31st March 2017</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	-	55,322	-	-	-	-	-
UK Index Linked	-	101,783	-	-	-	-	-
Overseas Govt Bonds	13,289	-	-	-	-	-	-
Overseas Inflation-linked	10,604	-	-	-	-	-	-
Corporate Bonds	-	6,140	39,863	29,879	14,842	-	1,838
Asset Backed	1,151	-	3,176	12,494	2,029	-	-
Emerging Markets	-	-	523	-	854	-	-
Mortgages	-	1,082	-	-	-	-	-
Supra/Sov/Local Govts	-	-	-	-	-	-	-
Cash/Cash Equivalents/ Currency Forwards	-	892	-	-	-	-	8,670
	<b>25,044</b>	<b>165,219</b>	<b>43,562</b>	<b>42,373</b>	<b>17,725</b>	<b>-</b>	<b>10,508</b>
% of Fixed Interest Portfolio	8.2	54.3	14.3	13.9	5.8	-	3.5

<b>Credit Analysis 31st March 2016</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	62,670	-	-	-	-	-	-
UK Index Linked	92,596	-	-	-	-	-	-
Overseas Govt Bonds	11,592	-	-	-	-	-	-
Overseas Inflation-linked	10,819	-	-	-	-	-	-
Corporate Bonds	-	2,597	43,519	27,500	8,158	-	1,682
Asset Backed	1,100	1,373	5,459	11,638	1,739	-	-
Emerging Markets	-	-	495	-	1,806	-	-
Mortgages	-	1,057	-	-	-	-	-
Supra/Sov/Local Govts	3,136	-	-	-	-	-	-
Cash/Cash Equivalents/ Currency Forwards	1,432	-	-	262	-	-	2,433
	<b>183,345</b>	<b>5,027</b>	<b>49,473</b>	<b>39,400</b>	<b>11,703</b>	<b>-</b>	<b>4,115</b>
% of Fixed Interest Portfolio	62.6	1.7	16.9	13.4	4.0	-	1.4

## 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 2017 is shown below:

Account Name	Balances as at 31st March 2016		Balances as at 31st March 2017	
	Rating*	£000	Rating*	£000
Standard Life Sterling Liquidity Fund	AAAm	1,542	AAAm	4,831
Federated Short Term Sterling Prime Fund	AAAm	2,725	AAAm	1,810
HSBC Instant Access	A1+/AA-	195	A1+/AA-	66
HSBC Current Account	A1+/AA-	-141	A1+/AA-	-19
Goldman Sachs		-	AAAm	472
<b>Total</b>		4,321		7,160

\* Ratings quoted are all Standard and Poors as at 31st March 2017 and 2016.

### 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 overleaf. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Quoted Equities	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year end	Not required	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
Pooled investments	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published.	Unobservable inputs	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.

### Sensitivity of assets valued at level 3

Having consulted with independent advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out opposite the consequent potential impact on the closing value of investments held at 31st March 2017.

Sensitivity of assets valued at level 3	Assessed valuation range (+/-)	Value at 31st March 2017 £000	Value on Increase £000	Value on Decrease £000
UK property pooled funds	2%	112,078	114,320	109,836
Overseas property pooled funds	16%	2,872	3,332	2,412
Private equity	7%	5,328	5,701	4,955
Total		<b>120,278</b>	<b>123,353</b>	<b>117,203</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 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	397,188	1,552,064	120,278	2,069,530
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	-	-	-
Investment manager cash and accruals				5,590
<b>Net Investment Assets</b>	<b>397,188</b>	<b>1,552,064</b>	<b>120,278</b>	<b>2,075,120</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31st March 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	1,114,264	456,047	113,951	1,684,262
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	-	-	-
Investment manager cash and accruals				8,188
<b>Net Investment Assets</b>	<b>1,114,264</b>	<b>456,047</b>	<b>113,951</b>	<b>1,692,450</b>

### Transfers between Levels 1 and 2

Pooled funds currently valued at £1,034,416k (£486,344k 2015/16) have been moved from Level 1 to Level 2 as the units are not exchange traded.

### Reconciliation of Fair Value Measurements within Level 3

2016/17	UK Property Pooled Funds £000	Overseas Property Pooled Funds £000	Private Equity £000	Total £000
Market Value 1st April 2016	106,703	2,029	5,219	113,951
Transfers into Level 3	1,429	1,549	-	2,978
Transfers out of Level 3	-1,419	-	-	-1,419
Purchases during the year and derivative payments	4,561	83	-	4,644
Sales during the year and derivative receipts	-672	-438	-	-1,110
Unrealised gains/(losses)	1,790	-351	109	1,548
Realised gains/(losses)	-314	-	-	-314
<b>Market Value 31st March 2017</b>	<b>112,078</b>	<b>2,872</b>	<b>5,328</b>	<b>120,278</b>



## N29 Financial Instrument Disclosure

2016/17	Designated as fair value through P & L £000	Loans & Receivables £000	Financial liabilities at amortised cost £000
<b>Financial assets</b>			
Bonds	280,713	-	-
Equities	377,449	-	-
Pooled investments*	1,253,165	-	-
Property Unit Trusts	133,718	-	-
Private equity	5,328	-	-
Derivative contracts	589	-	-
Cash	-	28,669	-
Other investment balances	-	5,522	-
Debtors	-	8,176	-
	2,050,962	42,367	-
<b>Financial liabilities</b>			
Derivative contracts	-153	-	-
Other investment balances	-	-2,720	-
Creditors	-	-	-1,840
Borrowings	-	-	-
	-153	-2,720	-1,840
<b>Total</b>	<b>2,050,809</b>	<b>39,647</b>	<b>-1,840</b>

2015/16	Designated as fair value through P & L £000	Loans & Receivables £000	Financial liabilities at amortised cost £000
<b>Financial assets</b>			
Bonds	280,881	-	-
Equities	312,866	-	-
Pooled investments*	952,078	-	-
Property Unit Trusts	127,532	-	-
Private equity	5,219	-	-
Derivative contracts	138	-	-
Cash	-	13,519	-
Other investment balances	-	7,254	-
Debtors	-	7,437	-
	1,678,714	28,210	-
<b>Financial liabilities</b>			
Derivative contracts	-927	-	-
Other investment balances	-	-1,789	-
Creditors	-	-	-1,705
Borrowings	-	-	-
	-927	-1,789	-1,705
<b>Total</b>	<b>1,677,787</b>	<b>26,421</b>	<b>-1,705</b>

\*Pooled investments also include an UK Open Ended Investment Company and UK and overseas Limited Liability Partnerships investing in property valued at £4,085k (£5,439k 2015/16).

## **N30 Bulk Transfers in and out of the Pension Fund**

### **Transfers to other pension funds**

The Pension Fund received notification that a service would be transferring its pension assets and liabilities to the Department for Work and Pensions (DWP). This involved a payment of £0.3m to the DWP.

### **Transfers from other pension funds**

The Pension Fund received notification that a service would be transferring its pension assets and liabilities from the Teachers Pension Agency (TPA) to the Fund. The Fund received £0.1m from the TPA.

## **N31 Accounting Standards that have been issued but have not yet been adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires consideration of the impact of Standards that have been issued but not yet adopted by the Code for the relevant financial year. This is to enable users to evaluate the risk of these new Standards on the Pension Fund's current financial position.

The additional disclosures that will be required in the 2016/17 and 2017/18 financial statements in respect of accounting changes that are introduced in the 2017/18 Code are amendment to the reporting of pension fund scheme transaction costs and an amendment to the reporting of investment concentration.

It is anticipated that this additional disclosure will not have a material impact on the accounts when it is applied prospectively from 1st April 2017.

## **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 settled by the member or has to be settled by the Pension Fund on behalf of the member in exchange for a reduction in benefit entitlement. The Pension Fund has paid no tax on behalf of a member during 2016/17 (£50k 2015/16). 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**

There were no events after the reporting date.

## **N34 Changes to comparative figures**

### **N34 (a) Investment income and Investment management expenses**

Investment management expenses have been re-stated following new advice from the Chartered Institute of Public Finance & Accountancy (CIPFA). Fees from three pooled funds of £50k have been removed as they were the legal responsibility of the pooled fund rather than a direct charge to the Pension Fund. In addition property unit trust expenses of £101k were discovered to have been netted off dividend income therefore these expenses have been added to the investment management expenses and dividend income has been increased by a corresponding amount. This also impacted on Note N4, the Investment movements summary, Note N15, Investment income and Note N22 Management expenses.

	2015/16	2015/16 re-stated	Difference
	£000	£000	£000
<b>Fund Account</b>			
Management expenses	7,663	7,613	-50
Investment income	-24,595	-24,696	-101
Profit and losses on disposal of investments and changes in market value of investments	47,868	48,019	151
			-
<b>Investment Movement Summary (Note 4 statement)</b>			
Cash movements, currency adjustments and other end of year settlements	5,004	4,853	-151
Total profit (-) and losses on disposal of investments and changes in market value of investments	47,868	48,019	151
			-
<b>Investment Income (Note 15)</b>			
Fixed interest	-6,853		
Index-linked	-1,825		
	-8,678	-	8,678
Bonds	-	-8,678	-8,678
Pooled investment vehicles	-5,192	-5,293	-101
			-101
Fixed interest securities and Index-linked securities are now amalgamated under Bonds as per the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, please see note overleaf.			
<b>Management expenses (Note 22)</b>			
Investment management expenses	6,186	6,136	-50
The re-stated figures on the more detailed breakdown of the Investment management expenses are given below.			
<b>Investment management expenses</b>			
Fund value based management fees			
- invoiced	2,982	3,082	100
- deducted from investment	1,970	1,820	-150
	4,952	4,902	-50

## N34 (b) Amalgamation of asset classes

Fixed interest securities and Index-linked securities are now amalgamated under Bonds as per the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The totals for 2015/16 have therefore been amalgamated where they appear in the financial statements.

	2015/16	2015/16 re-stated	Difference
	£000	£000	£000
<b>Net Asset Statement</b>			
Fixed interest securities	176,726	-	-176,726
Index-linked securities	104,155	-	-104,155
Bonds	-	280,881	280,881
			-
<b>Financial Asset Analysis (Note 14)</b>			
Fixed interest securities			
UK - Public Sector - Quoted	63,664	-	
Index-linked securities			
UK - Public Sector - Quoted	92,190	-	
	155,854	-	-155,854
Fixed interest securities			
Overseas - Public Sector - Quoted	11,490	-	
Index-linked securities			
Overseas - Public Sector - Quoted	11,965	-	
	23,455	-	-23,455
Bonds			
UK - Public Sector - Quoted	-	155,854	155,854
Overseas - Public Sector - Quoted	-	23,455	23,455
	179,309	179,309	-
Bonds			
UK - Corporate - Quoted	94,743	94,743	-
Overseas - Corporate - Quoted	6,829	6,829	-
	101,572	101,572	-
	280,881	280,881	-
Under the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, there is no longer a requirement to split the same type of asset between those managed from within the UK and those managed from outside the UK. UK Property Unit Trusts have therefore been amalgamated and the totals for 2015/16 have been amalgamated to enable comparison.			
<b>Financial Asset Analysis (Note 14)</b>			
Property Unit Trusts			
UK - managed from within the UK - Unquoted	2,349	-	-2,349
UK - managed from outside the UK - Unquoted	20,471	-	-20,471
UK - Unquoted		22,362	22,362
			-458
Asset re-classified (please see note opposite)			458
			-

### N34 (c) Change in asset classification

An investment valued at £458k in 2015/16 was classified as a UK Property Unit Trust. Following further clarification, this holding has now been deemed to be an Overseas Property Limited Liability Partnership and the 2015/16 comparable figures have been amended to reflect that movement in the Net Asset Statement, Note 4, Investment Movement Summary, Note 12, Unquoted holdings and Note 14 Financial asset analysis.

	2015/16	2015/16 re-stated	Difference
	Market value £000	Market value £000	£000
<b>Net Asset Statement</b>			
Pooled investment vehicles	951,620	952,078	458
Property unit trusts	127,990	127,532	-458
			-
<b>Investment Movement Summary (Note 4)</b>	<b>Change in market value during the year £000</b>	<b>Change in market value during the year £000</b>	<b>£000</b>
Pooled Investments	-33,760	-33,302	-458
Property Unit Trusts	10,085	9,627	458
	-23,675	-23,675	-
	<b>Market value £000</b>	<b>Market value £000</b>	<b>£000</b>
Pooled Investments	951,620	952,078	-458
Property Unit Trusts	127,990	127,532	458
	1,079,610	1,079,610	-
<b>Unquoted Holdings (Note 12)</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Overseas Property Limited Liability Partnership	-	458	-458
UK Property Unit Trust	22,820	22,362	458
	22,820	22,820	-
<b>Financial Asset Analysis (Note 14)</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Property Unit Trusts			
UK - managed from within the UK - Unquoted	2,349	-	-2,349
UK - managed from outside the UK - Unquoted	20,471	-	-20,471
UK - Unquoted	-	22,362	22,362
Limited Liability Partnerships			
Overseas - Property - Unquoted	-	458	458
	22,820	22,820	-

# 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 Website'. 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 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's 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.



# Pensions Administration Strategy Report

Levels of performance expected from the employing authorities and the Pension Fund are detailed in Section 2.2 of the Pensions Administration Strategy, which in accordance with CIPFA guidance, LGPS Funds are required to include within their report. Performance against some of those targets is shown below. The Fund monitors the timeliness of data submissions and the payment of pension contributions by the employer and has the power to seek compensation from employers in respect of any service standard breaches. During 2016/17 the option to levy interest on overdue contributions was not exercised. Charges of £1,074 (£7,116 2015/16) were levied against employers not meeting the expected level of performance.

		2014/15 %	2015/16 %	2016/17 %
Pension contributions paid on or before the due date		99.4	99.6	99.9
Employers providing the Pension Fund with a copy of their discretions policy document (155 out of 191)		75.8	78.5	81.2
Provision of named pensions contacts for the employer		100.0	100.0	100.0

Activity	Target	2012/13	2013/14	2014/15	2015/16	2016/17
<b>Annual Benefit Statements sent by statutory deadline:</b>		31/10/2013	31/10/2014	31/08/2015	31/08/2016	31/08/2017
	100%	100%*	100%*	0%**	100%*	<b>Anticipate 100%*</b>
<b>Provide retirement estimates within 15 working days</b>						
Total completed		655	531	646	693	<b>669</b>
Completed on time		594	428	505	228	<b>442</b>
Achievement	90%	90.7%	80.6%	78.2%	32.9%	<b>66.1%</b>
<b>Pay retirement grants within 15 working days</b>						
Total completed		739	745	707	650	<b>807</b>
Completed on time		716	721	634	151	<b>285</b>
Achievement	90%	96.9%	96.8%	89.7%	23.2%	<b>35.3%</b>
<b>Pay death grants within 8 working days</b>						
Total completed		65	57	40	55	<b>59</b>
Completed on time		58	54	39	6	<b>32</b>
Achievement	90%	89.2%	94.7%	97.5%	10.9%	<b>54.2%</b>
<b>Pay refunds within 15 working days</b>						
Total completed		n/a	n/a	n/a	n/a	<b>290</b>
Completed on time		n/a	n/a	n/a	n/a	<b>203</b>
Achievement	90%	n/a	n/a	n/a	n/a	<b>70%</b>
<b>Pay transfer values within 15 working days</b>						
Total completed		n/a	n/a	n/a	n/a	<b>71</b>
Completed on time		n/a	n/a	n/a	n/a	<b>55</b>
Achievement	90%	n/a	n/a	n/a	n/a	<b>77.5%</b>

\*\* Where all necessary information/clarification received from member's employer

\*\* This was the result of the fund not receiving the majority of necessary employer pay data in time. The 2014 LGPS introduced substantial change and additional requirements of employers and fund administrators alike. Statements were issued by 30th November 2015.

From the performance figures on the previous page it can be seen that, although performance improved slightly in 2016/17 compared with 2015/16, it is significantly lower than the performance levels achieved under pre April 2014 scheme. The reason for this is due to the increased complexities of the new scheme, which have now been recognised, with staffing levels within the Pensions Administration team having now been increased to take account of these increased complexities.

# Funding Strategy Statement

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The Funding Strategy Statement shown below is the current version of this statement. Should you wish to see the previous version applicable to the period that this report covers please contact the Finance Manager at Shire Hall, Gloucester, on (01452) 328945.

## 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 February 2017.

### 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 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 Statement of Investment Principles/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, and in what circumstances you might need to pay more. 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 e-mail address [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 measure the required contribution rate?**

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal 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 probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3, 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 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 will aim to return the employer to full funding over an appropriate period (the "time horizon"). 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 DCLG 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 measured 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). However, 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, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). 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 **probability 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, or potentially ceasing from the Fund, then the required probability 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 deficit (or surplus) 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 deficit/surplus and funding level 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, deficits and funding levels are short term 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 probability 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 deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

### **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 probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "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 may, at its sole discretion, 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 probability 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 be assumed to incur a greater loss of investment returns on the deficit. 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.

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 and Police	Other Scheduled Bodies	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)		Ongoing, but may move to “gilts cessation basis” - see Note (a)		Ongoing, 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
Maximum time horizon – Note (c)	17 years (20 yrs for Primary rate)	17 years	20 years	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority			Where the calculated secondary rate is negative, contributions are the maximum of the current rate in payment or the sum of the primary and the secondary rates.  Where the calculated secondary rate is positive, contributions are set to be the primary rate.
Probability of achieving target	66%, 75% or 80% depending on Fund’s assessment of employer profile in the Fund and consequent urgency of required funding – see Note (e)				
Phasing of contribution changes	Covered by stabilisation arrangement	3 years for increases, immediate for reductions	3 years	3 years	3 years for increases, immediate for reductions
Review of rates – Note (f)	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
New employer	n/a	n/a except for Academies - see Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	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 debt principles applied would be as per Note (j).		Can be ceased subject to terms of admission agreement. Cessation debt 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 (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits & contributions arising.



### **Note (a) (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. using a discount rate set equal to 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 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of Employer	Employers with precept (tax raising) powers
Max contribution increase per annum	1% to 2.5% of pay *
Max contribution decrease per annum	1% to 2.5% of pay *

\* the monetary increases applied to these employers' contributions will be determined by the Administering Authority in discussion with the Fund Actuary and will depend on each employer's individual circumstances including deficit level, funding position, cashflow, and maturity. The monetary increases applied at the 2013 formal valuation are unchanged following the 2016 formal valuation and the % of pay shown reflects the employer's pay base when stabilisation was introduced.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. 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 2017 for the 2016 valuation). The Administering Authority would normally expect a reducing period to be used at successive triennial valuations, assuming this could be achieved without a material impact on the contribution strategy. The Administering Authority would reserve the right to propose alternative time horizons, for example where there were no new entrants.

### **Note (d) (Secondary rate)**

The Secondary contribution rate for most employers covering the three year period until the next valuation will generally be set as a monetary amount as opposed to a percentage of salaries. However, where a percentage of salaries approach is used, the Administering Authority reserves the right to amend these rates between 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) (Probability 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 probability. A higher required probability 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 probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability 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:

- i. 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 those of the other academies in the MAT;
- ii. 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;
- iii. 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 fully fund deferred and pensioner members. 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 initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iii) and (iv) overleaf will be reconsidered at each valuation.

#### **Note (h) (New Admission Bodies)**

With effect from 1st 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 fall in gilt yields;
- 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 the 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 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 and doesn't pay any cessation deficit.

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. The Admission 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) above;

- 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 it should be noted that current legislation does not permit a refund payment to the Admission Body.

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 deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing 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 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. 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 (c), 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 would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

Where the ceasing employer participates in a pool, the deficit on cessation from the Fund will be calculated as a pro-rated share of the total pool deficit.

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, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified.



The Administering Authority may need to seek legal advice in such cases, as the 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. The current 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 ill-health retirements or deaths in service).
- LEA schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

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 2016 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.

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 the 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 different 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.

### 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 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

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 overleaf).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds

the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

### 3.8 External ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the lesser of the amount of that year's insurance premium and the employer's ill health allowance, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

### 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 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:

- a) 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;
- b) 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.

- c) In exceptional circumstances the Fund may permit an employer with no remaining active members 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:

- o 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;
- o 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
- o 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-1 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.

The Administering Authority therefore has a policy in place which identifies whether each employer's actual pay awards have exceeded the actuary's assumptions, and may require the employer to pay additional contributions to meet the increase in liabilities.

## 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 Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), 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.

### 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 asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is 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).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising

the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

### 4.5 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 the Department of Communities & Local Government (DCLG) 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 DCLG 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, DCLG 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.

DCLG 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 an FSS?

The Department for Communities and Local Government (DCLG) 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 2016 for comment;
- b) Comments were requested within 30 days;
- c) There was an Employers meeting on 1st December 2016 at which questions regarding the FSS could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published by 1st April 2017.

## **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 summary issued to all Fund members;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent 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. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

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 Statement of Investment Principles/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 Statement of Investment Principles/Investment Strategy Statement (SIP/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 SIP/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 SIP/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.

#### **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 SIP/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 SIP/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. the Department for Communities and Local Government (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 valuation of liabilities over the long-term.	<p>Only anticipate long-term return 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>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

## C2 Financial risks (continued)

Risk	Summary of Control Mechanisms
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	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.
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>

## 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>Employer ill health retirement experience is monitored, and insurance is an option.</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 results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
Time, cost and/or reputational risks associated with any DCLG 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>

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, wherever 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>

## > 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.

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, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund

then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). 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;

3. The required **probability 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, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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 below); 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 funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG 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 probability, 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 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. The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (by the end of the time horizon) is equal to the required probability.

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 combined Primary and Secondary rates aim to achieve the employer’s funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate

the present value of all benefit payments expected in the future, relating to that employer’s current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 overleaf)

2. within the determined time horizon (see 3.3 Note (c) for further details)

3. with a sufficiently high probability, 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 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. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

## **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;
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 probability of achieving the funding target.

#### **D5 How is each employer's asset share calculated?**

**Until 31st March 2016** the Administering Authority did not account for each employer's assets separately. Instead, the Fund's actuary apportioned the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers

participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted until 31st March 2016 meant that there were inevitably some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment was capable of verification but not to audit standard. The Administering Authority recognised the limitations in the process, and while it considered that the Fund actuary's approach addressed the risks of employer cross-subsidisation to an acceptable degree, it decided

to adopt a different apportionment approach going forward.

**With effect from 1st April 2016**, the Fund uses the Hymans Robertson Employer Asset Tracking model ("HEAT"), which apportions assets at individual employer level allowing for monthly cashflows per employer (e.g. contributions received, benefits paid out, investment returns, transfers in and out, etc). This revised approach gives a greater degree of accuracy, for employers' benefit.

## > Appendix E

### Actuarial assumptions

#### E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). 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 measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

#### E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not

expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

#### E3 What assumptions are made in the ongoing basis?

##### a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31st March 2016 and setting contribution rates effective from 1st April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2013 valuation, which was 1.6%, which produces a lower funding target all other things being equal). In the opinion of the Fund actuary, based on analysis discussed with the Fund and the current investment strategy, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

##### b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31st March 2020, followed by
2. Increases in line with the retail prices index (RPI) per annum thereafter.

This emerges as a blended single salary growth assumption of RPI less 0.7%. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

##### c) 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.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the



difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013 (0.8%), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

#### d) 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.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 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 is a similar allowance for future improvements than was made in 2013.

The combined effect of the above

changes from the 2013 valuation approach, is a slight reduction in assumed life expectancy on average. 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.

#### e) General

The same financial assumptions are adopted for most employers, 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

### Actuarial assumptions/basis

The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the **funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.

### 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.

### Discount rate

The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the

present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.

### 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**.

### Funding target

The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund



assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

### Gilt

A UK Government bond, ie 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 their main use in funding is as an objective measure of solvency.

### 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 101 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 least every three years 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 three year

period until the next valuation is completed.

### Scheduled Bodies

Types of employer explicitly defined in the LGPS Regulations, whose employers 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**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. 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. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

### Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

# 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 2017 to 31st March 2020 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 Funding Strategy Statement dated 25th February 2017 and the Actuary's report on the actuarial valuation dated 31st March 2017.

The required minimum contribution rates are set out below.

The contributions shown include expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by Fund employers in addition.

		Minimum Contributions For The Year Total Contribution Rate (%/£)		
Employer Code	Employer/Pool	2017/18	2018/19	2019/20
Gloucestershire County Council and Schools Pool		%	%	%
1	Gloucestershire County Council*	28.9% plus £150,000	29.9% plus £150,000	30.9% plus £150,000
77	Finlay Community School	28.9	29.9	30.9
79	Oakwood Primary School	28.9	29.9	30.9
86	Berry Hill Primary School	28.9	29.9	30.9
87	Grange Primary School	28.9	29.9	30.9
88	Harewood Junior School	28.9	29.9	30.9
93	Gardners Lane Primary School	28.9	29.9	30.9
134	Coopers Edge Primary School	28.9	29.9	30.9
503	Andoversford County Primary School	28.9	29.9	30.9
523	BlueCoat C. of E. Primary School	28.9	29.9	30.9
527	British School	28.9	29.9	30.9
537	Carrant Brook Junior School	28.9	29.9	30.9
588	Glebe Infants School	28.9	29.9	30.9
605	Heron Primary school	28.9	29.9	30.9
669	Picklenash County Junior	28.9	29.9	30.9
689	St. Gregory's R.C. School	28.9	29.9	30.9
727	Swindon Village County Primary School	28.9	29.9	30.9
732	Tirlebrook School	28.9	29.9	30.9
744	Warden Hill Primary School	28.9	29.9	30.9
760	Cam Woodfield Junior School	28.9	29.9	30.9
803	Barnwood Park Arts College	28.9	29.9	30.9
822	Lakers School	28.9	29.9	30.9
823	Maidenhill School	28.9	29.9	30.9
826	Pittville School	28.9	29.9	30.9
827	Rednock School	28.9	29.9	30.9

continued...

		Minimum Contributions For The Year Total Contribution Rate (%/£)		
Employer Code	Employer/Pool	2017/18	2018/19	2019/20
Town and Parish Councils Pool		%	%	%
3	Tewkesbury Town Council	24.8	24.8	24.8
6	Painswick Parish Council	24.8	24.8	24.8
13	Stonehouse Parish Council	24.8	24.8	24.8
20	Lydney Town Council	24.8	24.8	24.8
21	Prestbury Parish Council	24.8	24.8	24.8
22	Cirencester Town Council	24.8	24.8	24.8
34	Cinderford Town Council	24.8	24.8	24.8
40	Dursley Town Council	24.8	24.8	24.8
42	Bishops Cleeve Parish Council	24.8	24.8	24.8
46	Charlton Kings Parish Council	24.8	24.8	24.8
48	Tetbury Town Council	24.8	24.8	24.8
49	Cam Parish Council	24.8	24.8	24.8
50	Nailsworth Town Council	24.8	24.8	24.8
51	Coleford Town Council	24.8	24.8	24.8
52	Wotton-under-Edge Town Council	24.8	24.8	24.8
53	Lechlade Town Council	24.8	24.8	24.8
55	Northleach with Eastington Town Council	24.8	24.8	24.8
58	Brockworth Parish Council	24.8	24.8	24.8
59	Cainscross Parish Council	24.8	24.8	24.8
63	Chalford Parish Council	24.8	24.8	24.8
66	Rodborough Parish Council	24.8	24.8	24.8
72	Hucclecote Parish Council	24.8	24.8	24.8
75	Leonard Stanley Parish Council	24.8	24.8	24.8
80	Berkeley Town Council	24.8	24.8	24.8
168	King's Stanley Parish Council	24.8	24.8	24.8
189	Leckhampton with Warden Hill Parish Council	24.8	24.8	24.8
443	Newent Town Council	24.8	24.8	24.8
444	Stroud Town Council	24.8	24.8	24.8

### Councils

11	Gloucester City Council	17.5% plus £2,981,000	17.5% plus £3,232,000	17.5% plus £3,484,000
7	Cheltenham B.C.	18.3% plus £3,135,000	18.3% plus £3,563,000	18.3% plus £3,937,000
19	Cotswold D.C.	17.9% plus £1,468,000	17.9% plus £1,663,000	17.9% plus £1,858,000
12	Forest of Dean D.C.	17.9% plus £1,634,000	17.9% plus £1,825,000	17.9% plus £2,016,000
14	Stroud D.C.	18.0% plus £1,995,000	18.0% plus £2,270,000	18.0% plus £2,544,000
18	Tewkesbury B.C.	17.5% plus £1,583,000	17.5% plus £1,775,000	17.5% plus £1,968,000

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Employer Code	Employer/Pool	Minimum Contributions For The Year Total Contribution Rate (%/£)		
		2017/18	2018/19	2019/20
Colleges and University		%	%	%
16	University of Gloucestershire	16.9% plus £1,003,000	18.5% plus £1,028,000	20.1% plus £1,053,000
900	Gloucestershire College**	19.2% plus £603,000	19.2% plus £618,000	19.2% plus £632,000
905	Cirencester Tertiary College	22.3% plus £25,000	22.7% plus £51,000	23.2% plus £78,000
904	Hartpury College	20.4% plus £52,000	20.7% plus £106,000	20.9% plus £163,000
Scheduled Bodies				
17	Lower Severn Internal Drainage Board	26.3% plus £57,000	26.3% plus £57,000	26.3% plus £57,000
35	Police and Crime Commissioner for Gloucestershire	17.8% plus £823,000	17.8% plus £988,000	17.8% plus £1,152,000
Admitted Bodies				
160	Apcoa	26.4	26.4	26.4
76	Aspire Sports and Cultural Trust	14.9	14.9	14.9
41	Bromford Group ***	31.8% plus £851,000	31.8% plus £871,000	31.8% plus £893,000
176	Carers Gloucestershire (GCC - Carers-Advice and Support)	31.0	31.0	31.0
172	Carers Gloucestershire (GCC - Parent Partnership)	28.2% plus £10,000	28.2	28.2
61	Cheltenham Borough Homes Ltd	18.0	18.0	18.0
186	Cheltenham Leisure and Culture Trust	23.7% plus £3,000	23.7% plus £3,000	23.7% plus £3,000
153	Civica (FODDC)	29.6	29.6	29.6
136	Civica (GLOS)	27.4	27.4	27.4
410	Cotswold Archaeological Trust Ltd.	29.8	29.8	29.8
65	Cotswold Conservation Board	21.1	21.6	22.0
73	Enterprise (AOL) Ltd	19.7	19.7	19.7
180	Farmor's Sports Centre Limited	36.6	36.6	36.6
192	Forest of Dean DC - Ubico	25.3	25.3	25.3
184	GCC Highways - Amey	28.8	28.8	28.8
190	Gloucester City Homes Trust	24.0	24.0	24.0
185	Gloucester City IT - Civica	26.6% plus £4,000	26.6% plus £4,000	26.6% plus £4,000
442	Gloucestershire Airport Ltd.	30.7% plus £352,000	30.7% plus £361,000	30.7% plus £370,000
62	Gloucestershire Care Services NHS Trust (ex PCT)	25.8	25.8	25.8
37	Gloucestershire Group Homes	32.8	32.8	32.8
170	INTO (University of Gloucester)	31.1	31.1	31.1
195	Kiddywinks (GCC - St Catherine's Catholic Primary After School)	20.2	20.2	20.2

continued...

Employer Code	Employer/Pool	Minimum Contributions For The Year Total Contribution Rate (%/£)		
		2017/18	2018/19	2019/20
		%	%	%
159	Prospects Services	22.1	22.1	22.1
47	Severn Vale Housing Society	30.2% plus £500,000	30.2% plus £500,000	30.2% plus £500,000
181	Sir William Romney Leisure Limited	41.4	41.4	41.4
178	Sport Leisure Management (SLM) Ltd	25.3% plus £1,000	25.3	25.3
31	Stroud Court Community Trust	31.3	31.3	31.3
191	Tewkesbury BC - Ubico	23.6	23.6	23.6
64	The Order of St. John Care Trust	31.9	31.9	31.9
194	Tinies UK (Glos College)	24.2	24.2	24.2
60	Two Rivers Housing	18.1	18.1	18.1
140	Ubico - Cheltenham Waste	23.1	23.1	23.1
141	Ubico - Cotswold Waste	22.5	22.5	22.5
196	Wealden Leisure (Forest of Dean DC - Leisure)	23.8	23.8	23.8
<b>Academies</b>				
127	All Saints Academy	25.6	26.7	27.8
96	Balcarras School	27.0	27.9	28.9
158	Blockley CofE Primary School	27.1	27.7	28.4
157	Bourton on the Water	27.2	27.2	27.2
142	Brockworth Primary School	23.9	24.3	24.6
173	CCT Learning	21.3	23.6	26.0
107	Charlton Kings Infant	27.5	27.5	27.5
108	Charlton Kings Junior	31.9	31.9	31.9
102	Cheltenham Bournside	30.3	31.1	31.8
109	Chipping Campden	28.1	28.7	29.3
97	Chosen Hill School	29.4	30.6	31.8
151	Christ Church CofE Primary (Cheltenham)	26.1	26.1	26.1
135	Churchdown Secondary	33.9	34.1	34.3
117	Churchdown Village Infants	24.6	24.6	24.6
98	Cirencester Deer Park	27.6	27.9	28.1
110	Cirencester Kingshill	24.0	25.6	27.1
103	Cleeve School	25.7	26.7	27.6
128	Dene Magna	33.2	33.2	33.2
118	Farmors	27.4	28.8	30.2
129	Field Court Infant	26.9	26.9	26.9
130	Field Court Junior	33.3	31.7	30.1
143	Forest High School (formerly Forest E-Act Academy)	29.7	30.2	30.8
156	Forest View Primary	30.9	31.6	32.3
84	Gloucester Academy	28.4	29.9	31.4
116	Gloucester Learning Alliance (Bishops Cleeve)	25.8	26.5	27.2
122	Gloucester Learning Alliance (Rowanfield Junior)	24.2	25.6	27.0

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Minimum Contributions For The Year  
Total Contribution Rate (%/£)

Employer Code	Employer/Pool	2017/18	2018/19	2019/20
		%	%	%
115	Gloucester Learning Alliance (Springbank)	23.5	24.7	25.8
119	Gotherington	37.1	38.3	39.6
144	Greenfield Academy	32.4	34.9	37.4
139	Gretton Primary	26.8	27.2	27.5
100	High School for Girls	29.7	32.2	34.7
120	Highnam C of E	25.7	25.8	25.9
111	Katharine Lady Berkeleys	31.7	32.3	32.8
112	Marling School	26.5	27.4	28.2
137	Millbrook Academy	26.0	26.5	27.0
179	Mitton Manor Primary School	26.3	27.7	29.1
145	Newent Community School Academy	28.1	29.4	30.6
146	Offas Mead Primary	29.5	29.5	29.5
174	Our Co-Op Academy Trust (Beaufort)	29.6	32.1	34.6
95	Pate's Grammar School	27.7	27.9	28.0
147	Peak Academy	28.2	29.3	30.4
121	Redmarley C of E	30.1	30.1	30.1
104	Ribston Hall High	28.5	29.2	29.8
101	Robinswood Primary	26.1	26.1	26.1
126	Severn Vale	26.3	28.2	30.2
148	Severn View Primary Academy	30.7	31.2	31.7
154	Severnbanks Primary School	31.2	31.7	32.3
85	Sir Thomas Rich's	30.4	31.6	32.8
113	Sir William Romney	30.7	30.7	30.7
155	St David's Primary School	24.2	24.7	25.3
131	St Dominics Catholic Primary	30.6	32.6	34.6
149	St Johns CofE Coleford	28.4	28.4	28.4
123	St Mary's Catholic Primary	24.3	25.1	25.8
124	St Peter's High School and Sixth Form	29.8	30.8	31.8
125	Staunton Corse	29.3	29.5	29.7
171	Stone with Woodford CofE Primary School	30.3	32.1	33.8
106	Stroud High School	26.9	28.4	29.9
138	Tewkesbury School	29.2	30.1	31.0
94	The Cotswold School	28.7	29.0	29.3
99	The Crypt School	24.7	25.3	25.9
152	The Dean Academy	31.3	32.7	34.2
193	Diocese of Gloucester Academies Trust (Central Staff)	17.8	17.8	17.8
169	The Diocese of Gloucester Academies (Dursley CofE)	28.4	28.9	29.4
188	The Diocese of Gloucester Academies (Hardwicke)	29.6	29.8	30.1
197	The Diocese of Gloucester Academies (Longney CofE)	32.6	32.6	32.6

continued...



Employer Code	Employer/Pool	Minimum Contributions For The Year Total Contribution Rate (%/£)		
		2017/18	2018/19	2019/20
		%	%	%
187	The Diocese of Gloucester Academies (Minchinhampton CofE)	24.8	24.8	24.8
198	The Diocese of Gloucester Academies (North Cerney)	30.6	30.6	30.6
175	The Diocese of Gloucester Academies (Primrose Hill)	30.1	31.5	32.9
199	The Diocese of Gloucester Academies (Whiteshill)	29.3	29.3	29.3
183	The Diocese of Gloucester Academies (Winchcombe Abbey)	26.1	26.6	27.2
150	The Ridge School	22.4	24.1	25.7
132	The Rosary Catholic Primary	28.6	29.7	30.8
114	Thomas Keble	28.6	29.4	30.2
182	Tredworth Infant School	25.5	26.5	27.4
105	Winchcombe Secondary	31.1	31.7	32.4
133	Wyedean School	30.3	32.0	33.7

\* These rates include an additional payment of £150k p.a. relating to the former Prospects Services contract.

\*\*These rates are only applicable subject to a charge being placed on the College's property by 30 September 2017 equal to the funding deficit at 31 March 2016.

\*\*\*The above Secondary contributions for Bromford Housing Group may be superseded if an appropriate legal agreement

is signed by both the employer and the Fund during 2017/18: in that situation, the Secondary rate for 2017/18 would be £1,100,000, and the Secondary amounts for the subsequent two years would be nil. This is on the basis of advice provided by the Fund Actuary to the Administering Authority, conditional on appropriate terms being agreed.

## Further comments

Regulation (62(8) requires a statement of the assumptions on which the certificate is given regarding the number of members, and the associated liabilities arising, who will become entitled to payment of pension under the regulations of the LGPS. These assumptions can be found in Appendix E of the 31st March 2016 formal valuation report dated 31st March 2017. These assumptions cover members who become entitled to payment of pension via normal retirement and ill health retirement. Further members will become entitled due to involuntary early retirement (for redundancy and efficiency reasons) for which no allowance has been made.

Contributions expressed as a percentage of pensionable

payroll and monetary amounts should be paid into 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, excess salary increases and/or augmentation using methods, calculations and factors specified by us from time to time.

Further sums may be required to be paid to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those included within my assumptions.

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.

The monetary contributions set out in the certificate previously can be repaid in advance with appropriate adjustments for interest as and when agreed with the Administering Authority. Under these circumstances a revised Rates and Adjustments certificate may be issued reflecting any advance payments.

## Ill health liability insurance

Note that, if an employer has ill health liability insurance in place with a suitable insurer and provides satisfactory evidence to the administering authority, then their Minimum Total Contribution Rate may be reduced by the minimum of their insurance premium and ill health budget, for the period the insurance is in place.

# Statement of Investment Principles

## Gloucestershire County Council Pension Fund

The Statement of Investment Principles was in place during the reporting period of these accounts; however on the 1st April 2017 it was superseded by an Investment Strategy Statement. The Pension Fund's Investment Strategy Statement is available to view on the County Council's website at [www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments)

### 1. Introduction

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees.

The County Council is the designated statutory body (Administering Authority) responsible for administering the Gloucestershire LGPS Fund on behalf of its scheduled and admitted bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out reviews and monitoring of investments and performance.

The Council have delegated the duties of the Administering Authority to the Pension Committee, whose role it is to advise the full Council on any matter relating to the proper management and maintenance of the Gloucestershire Pension Fund.

The Committee can appoint investment advisors and consultants to assist them in this role.

The Committee has delegated the day-to-day management of the Fund's investments to professional investment managers, whose activities are governed by Investment Management Agreements.

The LGPS (Management and Investment of Funds) Regulations

2009 require administering authorities to prepare, maintain and publish a written statement of the principles governing decisions about the investment of fund money. These regulations also require the statement to state the extent to which the administering authority complies with guidance given by the Secretary of State and to the extent the authority does not so comply, the reasons for not complying. This guidance consists of the six updated Myners' principles for pension fund investment, scheme governance, disclosure and consultation as detailed in the CIPFA publication "investment decision making and disclosure".

This Statement of Investment Principles was last updated at August 2012.

### 2. Investment Responsibilities

#### The Pension Committee's duties in relation to investments are:

- To set the investment policies of the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, drawing upon appropriate professional advice.
- To appoint and review the performance of all Fund Managers and associated professional service providers.

- To consider any other matter relevant to the proper operation and management of the Fund.
- To approve and keep under review the Funding Strategy Statement.
- To approve and keep under review the Statement of Investment Principles.
- To report annually to County Council.

#### Officers are responsible for:

- Supporting and advising the Pension Committee in all the above.
- Ensuring compliance with all relevant investment legislation.
- Liaising with Investment Managers, Custodian and Investment Advisors.

#### The Investment Managers are responsible for:

- The investment of the Fund's assets in compliance with the prevailing legislation, their investment management agreement and this statement.
- Tactical asset allocation around the strategic benchmarks set out in this statement.
- Stock selection within asset classes.
- The Fund's assets under their management.

- Constructive shareholder engagement and shareholder voting in matters of socially responsible investment and the promotion of good corporate governance.
- Providing monthly valuations of the Fund's assets under their management with details of all transactions during that month.
- Preparation of compliance statements with respect to this statement insofar as it relates to the investment managers' services to the Fund.

#### The Custodian is responsible for:

- The custody of the Fund's assets.
- Settlement of all investment transactions, collection of all income and making tax reclaims.
- Reconciliation of asset, transaction and dividend records with the investment fund managers.

The Pension Committee appointed BNY Mellon as the Fund's global custodian in July 2004.

#### The Investment Advisor is responsible for:

- Assisting the Pension Committee in the selection and appointment of investment fund managers and custodian.

- Assisting the Pension Committee in their regular monitoring of the investment managers' performance.
- Advising on strategic asset allocation and benchmarks.
- Advising the Pension Committee on investment and market developments, corporate governance and socially responsible investment issues.

The Pension Committee appointed an independent investment advisor in October 2003.

### 3. Investment Policy

The long-term investment objectives for the Fund are to:

- Maximise investment returns over the long-term within an acceptable level of risk judged by the Pension Committee to be appropriate.
- Ensure that sufficient assets are readily available to meet liabilities as they fall due.
- Aim for long-term stability in the employers' contribution rates.
- Achieve and maintain funding levels at, or close to, 100% of the Fund's liabilities.

The investment style is to appoint expert investment managers with clear performance benchmarks set

against specific investment indices, and place maximum accountability for performance against those benchmarks on the investment managers.

The Pension Committee has approved specialist investment mandates covering UK Equity, Global Equity, Emerging Market Equity, Global Fixed Interest and Property (as detailed in the table below).

The managers' fees are either an *ad valorem* fee, i.e. a percentage of the value of the funds they manage or a combination of an *ad valorem* and a performance related fee. The principle of performance related fees is based on a lower base fee element and a performance fee which is paid if they achieve or exceed their performance target.

Following an asset/liability study and a strategy review in 2011 a number of changes were made to the Fund's investment strategy and strategic asset allocation. These involved the following –

- A reduction in UK equities and an increase in global equities.
- An increase in emerging market equities.
- A change in the benchmark index used for global equities.
- A movement of part of the

Fund's asset allocation effective from:	1st Dec 2008 %	1st Dec 2011 %	1st Dec 2012 %
UK Equities	25.0	20.0	20.0
Global Equities (including UK & excluding Emerging Markets)	15.0	17.5	17.5
Global Equities (excluding UK & Emerging Markets)	21.3	0.0	0.0
Global Equities (including UK & Emerging Markets)	0.0	23.5	23.5
Pooled Multi Asset	0.0	0.0	5.0
Bonds (Fixed Interest)	25.0	27.0	22.0
Property	10.0	7.5	7.5
Emerging Market Equities	3.7	4.0	4.0
Cash & Venture Capital	0.0	0.5	0.5
Total	100.0	100.0	100.0

Fund's bond (fixed interest) portfolio into an absolute return bond strategy.

- Appointment of a property multi manager.
- Managing the emerging markets portfolio on an index tracking rather than an active basis.

There was also a strategic asset review in August 2012 which moved part of the Fund's bond (fixed interest) portfolio into a pooled multi asset (absolute return) fund.

The table on the previous page shows the Fund's current asset allocation compared to the previous allocations. All figures are shown as a percentage of the Fund.

These changes have resulted in the Fund's total exposure to Emerging Market equities increasing from 3.7% to 7.0%, its total exposure to bonds reducing from 27.0% to 22.0% and its total exposure to UK Equities reducing from 26.4% to 23.5%.

The table below details the Fund's managers, their mandates and their relevant performance benchmarks.

There are also investments with Yorkshire Fund Managers, a specialist private equity/venture capital manager, in two of their funds, as follows –

- South West Region Venture Capital Fund - supporting fast growing SME's across the South West region. £2.5m maximum commitment.

- Chandos Fund - identifies modestly priced, conservatively geared businesses which can provide medium term value growth. £3m maximum commitment.

The investment managers may, subject to the limitations of legislation, their management contract and this statement, invest in those assets to which their specialist mandates relate. This enables the Fund to:

- Receive specialist advice from the managers on the strategies each is following.
- Monitor the performance of the asset allocations agreed by the Committee as being appropriate to the Gloucestershire Fund.
- Develop performance benchmarks appropriate to the Fund's objectives.
- Monitor the performance of the managers against specific performance measures.

“Rebalancing” between asset classes is considered every quarter. Rebalancing will usually be achieved through the adjustment

of the cash flow to each manager, but where absolute differences of 3% or more arise then rebalancing will be achieved by moving cash between asset classes.

The Fund continues to hold a greater proportion of its assets in equities, which are currently considered to provide the most appropriate match with the Fund's liabilities and should provide a better long-term return than fixed interest investments.

Based on assumptions used by the Fund's actuary, estimated returns for the major asset classes as at March 2010 were:

Equities	7.8% per annum
Bonds	5.0% per annum
Property	5.8% per annum

## 4. Performance Management

As well as overall Fund performance, the Committee considers the individual investment managers performance against their index benchmarks on a quarterly basis. In addition, the investment advisor and officers are in regular contact with investment managers over performance. This process is also assisted by the Fund's custodian and GS Performance Services who review and analyse Fund and manager performance.

Mandate	Manager	Benchmark
UK Equities	Standard Life	FTSE All Share
Global Equities inc UK	GMO	MSCI World Index
Global Equities inc UK & Emerging Markets	BlackRock	MSCI All Countries World Index (ACWI)
Pooled Multi Asset	Standard Life	6 month Sterling Libor + 5%
Global Fixed Interest	Western Asset	Composite UK/Overseas
Global Fixed Interest	Western Asset	3 month Sterling Libor + 2%
Property	Hermes Property Asset Management	IPD UK Pooled Property Balanced PUT Index
Property	CBRE Investors	IPD All Balanced Property Fund Index
Emerging Markets	BlackRock	MSCI Emerging Markets Index



## 5. Risk Management

The Fund controls risk through its strategic asset allocation policy which achieves a wide diversification of investments across a selection of managers and by monitoring the risk inherent in managers' performance.

When setting individual manager's performance targets, independent advice is taken on the appropriateness of the target for that portfolio and in relation to the Fund's overall investment and funding objectives. Investment managers are also required to implement appropriate risk management measures and to operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits. This will include an appropriately diversified portfolio of holdings.

Investment managers make quarterly reports to the Pension Committee on investment performance, book and market values of investments and transaction details.

Investment manager performance against benchmark is reviewed quarterly by the Fund's custodian and GS Performance Services who analyse fund performance. There is also an annual review of the Fund's performance against benchmarks and other Funds.

## 6. Realisation of Investments

The Fund has a positive cash flow and therefore has no present requirement to realise assets in order to meet its liabilities. However, the Fund is structured so that the majority of investments held could be quickly realised if required. Investments are sold as part of normal investment management activities.

## 7. Socially Responsible Investments (SRI)

With regard to socially responsible investment the Committee has to take account of the following legal principles that apply to all pension schemes:

- Administering authorities are free to adopt a policy of socially responsible investment, providing that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.
- Administering authorities are not entitled to subordinate the interests of members to ethical or social demands. The financial performance of the Fund, proper diversification and prudence are paramount.
- Administering authorities may avoid certain kinds of prudent investment which they consider scheme members would regard as objectionable so long as they make equally financially advantageous and prudent investments elsewhere. They may also make "ethical" investments provided these are otherwise justifiable on investment grounds.

Where the Committee invests in a pooled fund it is not possible to require the avoidance of certain kinds of investments within that fund.

As a responsible investor, the Pension Committee supports corporate social responsibility, good practice and improved company performance amongst all companies in which the Fund invests via a segregated fund. In furtherance of these policies the Committee would wish the investment managers to be active in their constructive shareholder engagement with these companies regarding socially responsible investment issues but recognises this will not be possible where

an investment manager uses quantitative methods of share selection without engaging directly with companies.

Issues that should be addressed include:

- Environmental issues.
- Employment standards.
- Human rights.
- Community involvement.

Investment managers should report such discussions/ involvement as part of their quarterly reports to the Pension Committee.

## 8. Corporate Governance

Corporate governance is defined as "the system by which companies are controlled and directed". Effective corporate governance ensures checks and balances in company management without restricting necessary incentives. Pension funds, as major shareholders, should promote good corporate governance as a means of ensuring good performance. The UK Steering Committee on Local Government Pensions (UKSC), Chartered Institute of Public Finance and Accountancy (CIPFA), Pension and Investment Research Consultants (PIRC) and the National Association of Pension Funds (NAPF), all advise pension funds to ensure voting rights are used to promote good corporate governance.

PIRC have established the following principles for corporate governance policy:

- Shareholders should assume the responsibility of ownership.
- Shareholders' voting rights are an asset, which need managing.
- Shareholders' voting rights should be exercised in an informed and independent manner.
- Shareholders' voting policies should reflect three main concerns:

- To protect their rights as shareholders.
- To ensure that corporate governance standards are consistent with protecting assets.
- To promote corporate governance standards in order to enhance long term value.

The Pension Committee supports the principles of best practice in corporate governance and delegates authority to the investment managers to exercise these voting rights in line with NAPF or PIRC or other proxy voting guidelines which are detailed in the investment managers' Investment Management Agreement.

Investment managers should report their voting actions as part of their quarterly reports to the Pension Committee.

## 9. Stock Lending

The Pension Fund allows stock held within its segregated portfolios to be lent out but only to borrowers approved by the Pension Committee. The Committee have agreed a list of approved borrowers and this lending is managed on behalf of the Fund by its global custodian. The borrowers are required to provide collateral to protect the Fund's assets and the Fund receives income from this lending.

## 10. Cash Management

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 will be invested separately from Gloucestershire County Council monies, with the Fund receiving the actual interest

earned and bearing the risk of any investment. Pension Fund investments will mirror the same criteria for counterparties, etc., as approved by Gloucestershire County Council and detailed in their Treasury Management Strategy.

In addition, no Pension Fund cash will be lent for periods exceeding 3 months. Also, a minimum of £1.5 million will be held on call and the remaining balance will be managed to reflect projected Pension Fund cash flows, daily cash requirements and the quarterly rebalancing of the Pension Fund.

The Treasury Management team will advise officers of actual Pension Fund lending activity on a monthly basis and will also advise if there is any proposed change in their Treasury Management Strategy.

## 11. Compliance

The Statement of Investment Principles is available on the Pension Fund pages of the County Council's website at [www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments) and is included in the Pension Fund's Annual Report which is published every November.

The Pension Committee will on a quarterly basis review:

- The investment performance of the Fund, both in total and by individual investment fund manager.
- The qualitative performance of the investment fund managers - this will include changes in ownership of the organisation, changes in personnel managing the Fund and the quality and timeliness of information from the manager.
- The need to re-balance between asset classes to maintain the strategic asset allocation at its agreed level.

The Pension Committee will

review the Fund's strategic asset allocations (and associated risks), at least every three years, following the triennial valuation.

The Pension Committee, representing the Administering Authority, is required to state the extent to which it complies with guidance given by the Secretary of State on the following six Myners' investment principles:

## Response to Myners' Principles

### Principle 1: Effective Decision Making

*Administering authorities should ensure that:*

- *decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and*
- *those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.*

### Fund Compliance - Full

The Fund has a clear governance policy setting out the role of the Pension Committee, its officers and advisors as well as details of equal access to allowances, committee papers and training and publishes a governance compliance statement.

Account is taken wherever possible of relevant skills, experience and continuity when making appointments to the committee and the Chief Financial Officer ensures the training needs of committee members are identified, an annual training plan is prepared and training logs are maintained for members. The Committee uses the skills and knowledge framework published by CIPFA when developing future training plans and uses the CIPFA trustee toolkit.



An annual business plan is produced and considered by the committee which includes major milestones, financial estimates, key targets and a review of the level of resources needed by the Committee to carry out its functions effectively.

The Committee publishes an administration strategy which refers to the relationship and communication between the committee and scheme employers as well as its governance policy including skills and knowledge.

## Principle 2: Clear Objectives

*An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local taxpayers and the attitude to risk of both the Administering Authority and scheme employers and these should be clearly communicated to advisors and investment managers.*

### Fund Compliance - Full

The Fund's Statement of Investment Principles (SIP) and Funding Strategy Statement (FSS) sets out its investment objectives which are agreed after consultation with the fund actuary and take account of cash flow and the fund's relatively immature liabilities and the secure nature of most employers' covenants.

The investment strategy is reviewed following the triennial valuation with advice from specialist independent advisors.

After taking advice from the Actuary the Chief Financial Officer and the Committee consider the impact of funding levels and employer contribution rates on council tax levels over time and aim to keep employer contribution rates as stable as possible.

Following discussions with the

Actuary it has been decided not to establish sub funds with different investment objectives.

Fund managers are set individual performance targets and benchmarks based on advice from an independent advisor and their performance is measured and reviewed by the Committee on a quarterly basis.

These benchmarks and the Fund's asset allocation are reviewed by the Committee, with the most recent change in December 2011.

In addition an external strategic asset review takes place following the triennial actuarial valuation and at this stage the Committee will also decide whether to commission an asset liability modelling study.

When necessary, the external procurement of investment managers etc. is conducted within the EU procurement regulations and the authority's own procurement rules.

The Committee are made aware of investment management fees and other transaction related costs and appropriate actions are taken to reduce these costs where possible.

## Principle 3: Risk and Liabilities

*In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.*

*These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.*

### Fund Compliance – Full

The Committee in setting its investment strategy, as detailed in its SIP and FSS, has taken account of the form and structure of its liabilities following advice from the fund's actuary and believes its funding and investment policies

balance the key objectives of stability of contributions, affordability for employers, transparency of process and prudence.

The Fund's overall long term investment target is expressed as a return in excess of index linked government bonds. The Committee recognises the possibility of volatility in market conditions and given the proportion of equities held by the Fund, in the short to medium term, accepts returns can fall short of the Fund's investment target.

The Fund's SIP describes the risk assessment process when considering current and future investments and all the key risks relevant to the Pension Fund are also detailed in the FSS and are maintained on a risk register. These risks are considered as part of the annual review of the FSS by the Committee and if at any other time there is a significant change in the Fund's risk profile appropriate recommendations to mitigate the risk are made to the Committee. As part of the triennial valuation the Actuary will produce a risk assessment relating to the valuation of the Fund's liabilities and assets and will analyse and advise on factors affecting its long term performance.

The Pension Fund Annual Report includes an overall risk assessment relating to the Fund's activities.

## Principle 4: Performance Assessment

*Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.*

*Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.*

### Fund Compliance - Full

In addition to overall Fund performance, the Committee considers the individual investment managers performance against their index benchmarks on a quarterly basis. This quarterly data is verified by the Fund's global custodian and by GS Performance Services. When appointing a new manager the Committee takes advice from its independent investment advisor and other external advisors on the appropriate index benchmark to be used and to ensure it will support the Fund's overall investment strategy.

The Committee recognises active fund management can result in performance diverging from benchmark and therefore considers manager performance over the long term. As a minimum this is on a rolling 3 year basis but is also from inception, which for most managers is currently 5 years.

The Fund obtains regular performance reports from GS Performance Services comparing both its overall performance and by asset class with other Local Government Pension Funds. The Fund also receives comparative performance data from its global custodian.

The Fund's actuaries and advisors are assessed on an ongoing basis in relation to cost, quality and consistency of advice. The Committee will also include its own performance expectations on e.g. reviews of governance, achievement of training and attendance targets, in its business plan. This assessment will be included in the Fund's Annual Report.

## Principle 5: Responsible Ownership

*Administering Authorities should:*

- adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of

*Principles on the responsibilities of shareholders and agents.*

- include a statement of their policy on responsible ownership in the Statement of Investment Principles.
- report periodically to scheme members on the discharge of such responsibilities.

## Fund Compliance - Full

Where the Institutional Shareholders Committee Statement of Principles (SCSP) are applicable, the Fund ensures its investment managers adopt these principles.

The Fund's policies on socially responsible investments (SRI) and corporate governance are shown in its SIP and the Fund's Annual Report contains details of how these responsibilities are discharged.

When selecting investment managers for appointment and once appointed, when discussing their subsequent performance, the Committee consider the potential for environmental, social and governance issues to add value.

The Fund delegates authority to fund managers to exercise voting rights in line with NAPF and PIRC guidelines and the managers are required to report their voting actions as part of their quarterly reports to the Committee.

## Principle 6: Transparency and Reporting

*Administering Authorities should:*

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- provide regular communication to scheme members in the form they consider most appropriate.

## Fund Compliance - Full

The Fund publishes the following policy statements on its website [www.gloucestershire.gov.uk/extra/pensions/investments](http://www.gloucestershire.gov.uk/extra/pensions/investments) and in its Annual Report:

- Statement of Investment Principles (SIP).
- Funding Strategy Statement (FSS).
- Governance Policy Statement.
- Governance Compliance Statement.
- Communications Policy Statement.

The Communications Policy Statement contains details of the Fund's policy on: providing information about the scheme to members and employers; the format, frequency and method of distributing such information; the promotion of the scheme to prospective members and their employing authorities.

In addition to the Annual General Meeting held each November to which all scheme members and employers are invited, the Administering Authority holds Employer Forums at least twice a year and invites all scheme employers.

The SIP fully describes: the roles of members, officers, investment managers, etc.; the investment monitoring process; the asset allocation and investment returns; individual mandates; fee structures.

The Governance Compliance Statement details compliance with CLG guidance and if not fully compliant details why not and a copy of the statement is sent to CLG.

# 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 July 2017.

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.

Employers are informed of their duty to automatically admit new employees, where relevant, unless they specifically request not to.

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 2016/17 the Pension Fund communicated with scheme members, their representatives and employers as set out in the policy statement below, apart from the annual meeting taking place in December rather than November.

## > 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 November 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 all of the Fund's policy statements covering Funding Strategy, Investment Strategy Statement, Governance, Communication and Administration. In addition,

each policy statement is listed separately on the website.

All pensioner members receive a pension newsletter each May 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 there is a material change in the pension paid during a particular 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.

When invited by the employing authority, Pension's staff visit employers premises to explain and promote membership of the scheme.

## 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 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 DCLG, 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.

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.

Quarterly 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, Membership and Beneficiaries

## 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”.
- Widows/Widowers & Dependants Pensions - Widow(er)s pension and/or eligible children’s pensions payable in the event of a scheme member’s death.
- Partners Pensions – Partner pension payable to eligible partner.
- 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 2014) of £6,500);

- making additional voluntary contributions to Prudential's in-house AVC arrangement to provide an additional pension benefit at retirement.

## Beneficiaries

Membership summary by type of employer

	Pensioners	Widow(er)s/ Dependants	Deferreds	Contributors
County Council (including non academy schools)	7,657	1,078	11,144	10,204
District Councils	2,539	573	2,537	1,489
Academies	298	19	1,224	3,401
Colleges	877	90	2,256	1,805
Other Scheduled Bodies	609	81	856	1,032
Admitted Bodies	814	65	721	1,055
<b>Total</b>	<b>12,794</b>	<b>1,906</b>	<b>18,738</b>	<b>18,986</b>

In addition, at 31st March 2017, there were 3,274 undecided leavers; members who are no longer accruing service and to whom a refund of contributions or transfer out may be due, and 2,767 unprocessed leavers; which could end up becoming Undecided Leavers, Deferreds or aggregated with another record the member may hold.

# Other Appropriate Material

## Employer Summary

Please find listed below a summary of the number of employers in the Fund during 2016/17 analysed by scheduled bodies and admitted bodies which were active (with active members) and ceased (no active members) during the year.

	Active at 1st April 2016	New Actives	Ceased	Total at 31st March 2017
Scheduled body	145	3	1	147
Admitted body	40	4	1	43
<b>Total</b>	<b>185</b>	<b>7</b>	<b>2</b>	<b>190</b>

## Analysis of Fund Assets as at 31st March 2017

	UK £m	Non UK £m	Global £m	Total £m
Equities	429.4	983.0	-	1,412.4
Bonds	262.7	153.0	-	415.7
Property (direct holdings)	-	-	-	-
Alternatives*	132.8	13.3	-	146.1
Cash and cash equivalents	31.6	6.2	-	37.8
Other**	-	-	76.6	76.6
<b>Total</b>	<b>856.5</b>	<b>1,155.5</b>	<b>76.6</b>	<b>2,088.6</b>

## Analysis of Investment Income Accrued During the Reporting Period

	UK £000	Non UK £000	Global £000	Total £000
Equities	11,527	38	-	11,565
Bonds	7,826	1,053	-	8,879
Property (direct holdings)	-	-	-	-
Alternatives*	6,483	143	-	6,626
Cash and cash equivalents	177	9	-	186
<b>Total</b>	<b>26,013</b>	<b>1,243</b>	<b>-</b>	<b>27,256</b>

\*Alternatives are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds and derivatives.

\*\* Other denotes assets not falling into any other category such as investments in vehicles where the underlying investments may comprise of assets of more than one type.

# Glossary of Terms

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## **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 or the pension scheme.

## **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 particular households it represents, 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 62.

## **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.

### The Myners Review

The review of issues and challenges affecting institutional investment decision making carried out by Paul Myners on behalf of the UK Government, which was published in 2001. A key recommendation was that pension fund trustees should embrace a set of principles now known as the Myners Code.

### 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. The activities of life companies are regulated by the FSA.

### 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 FSA.

### 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.

## Notes







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