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.

Contents

Introduction

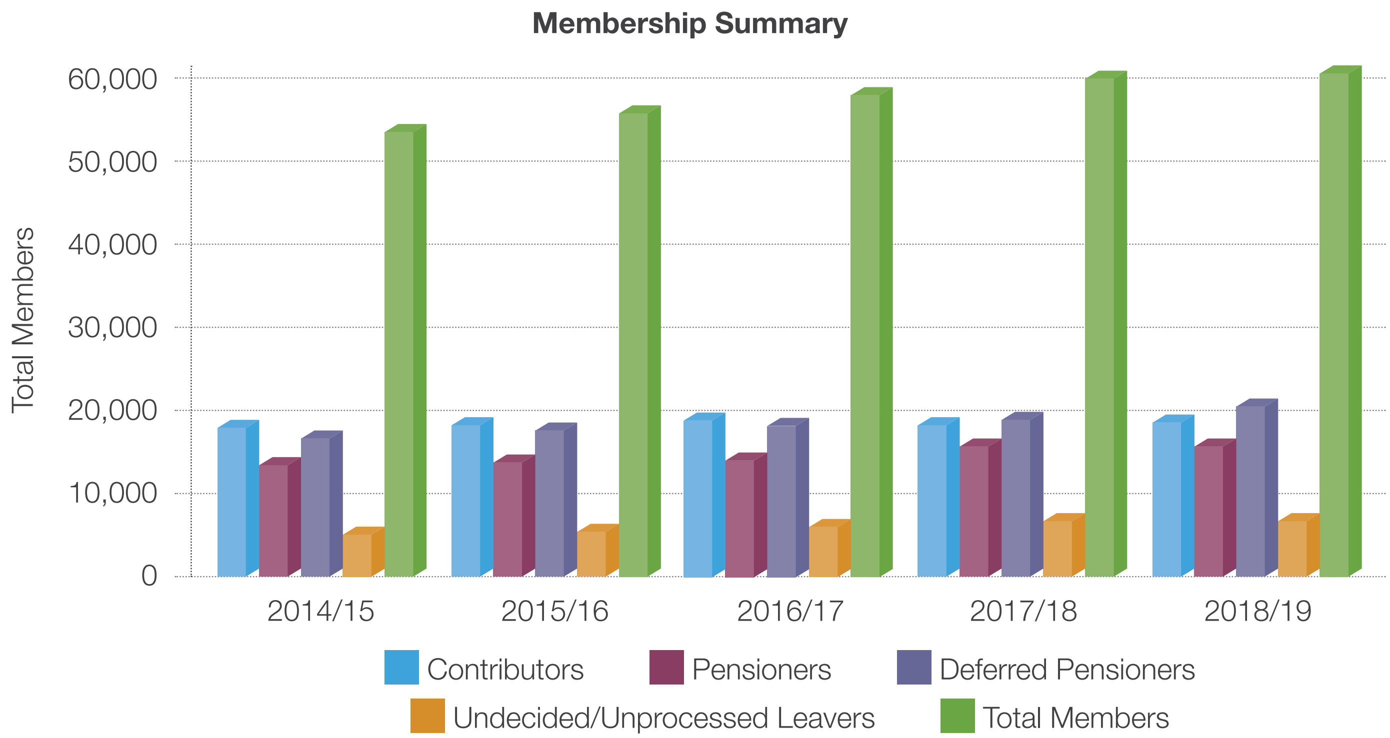
It is with pleasure that we introduce this year's Annual Report of the **Gloucestershire Pension Fund.** It contains details of the administration of the Fund, together with its investments and accounts for the year to 31st March 2019.

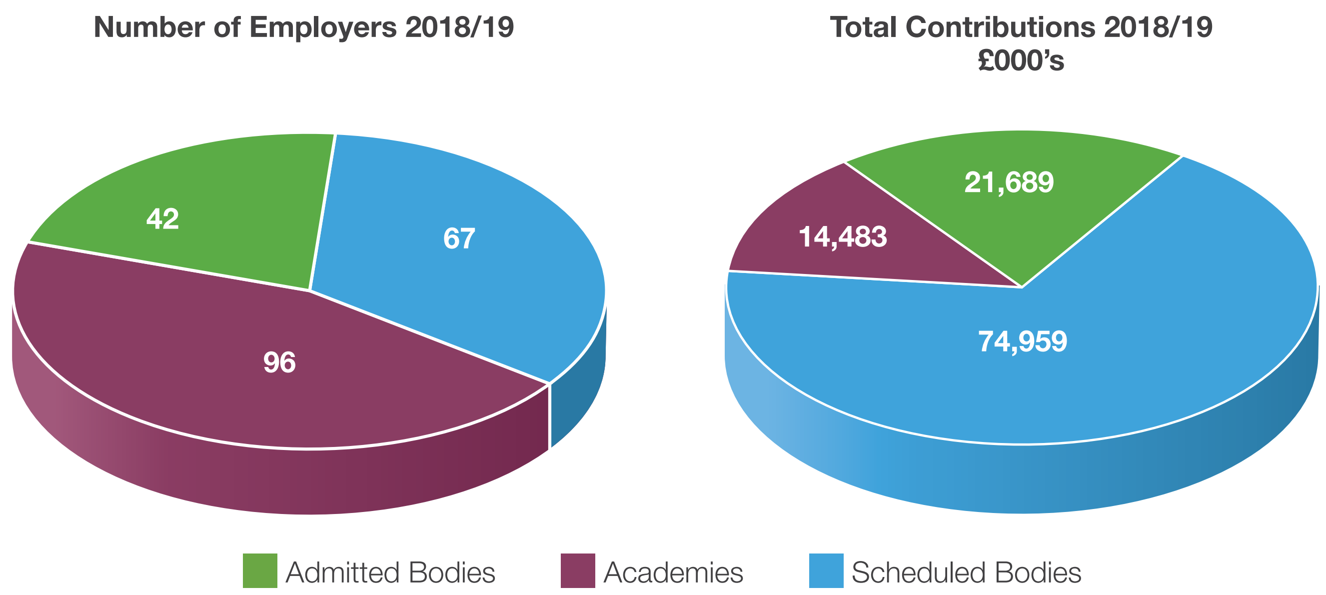
This introductory section provides a summarised version of the key issues set out within the Annual Report.

The Fund is managed and administered by Gloucestershire County Council on behalf of Gloucestershire local authorities, other bodies providing public services and certain admitted bodies, as part of the national Local Government Pension Scheme (LGPS) Regulations. The Fund collects employer and employee pension contributions in relation to active employees of these organisations and meets the cost of pension benefits due to current and former employees.

Fund Membership and Employers

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





Membership at the end of 2018/19 stood at approximately 55,400, split between active contributors (18,969), pensioners (16,058) and deferred members (20,417). There were also unprocessed leavers (4,690) at the end of the period. This equates to a rise of 1,900 compared with the position at the end of 2017/18. A more detailed breakdown of membership can be found on pages 16 to 17 in the main body of the report.

With regards to participating employers, the Pension Fund has seen an increase of 4 new employers joining the Fund during 2018/19 to a total of 205. A breakdown of employer groups and contributions received is shown graphically above. Contributions received from employers and employees totalled £111.1m during the year.

A detailed breakdown of all participating employers and the total value of contributions received during 2018/19 can be found on pages 21 to 24 in the main body of the report.

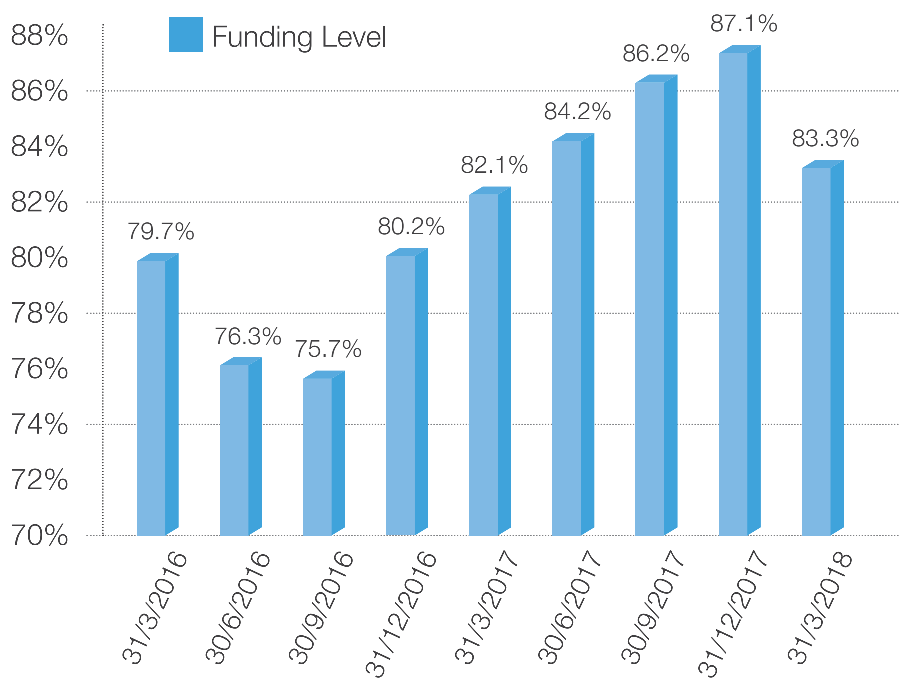
Policy Documents

The latest version of the Fund's policy statements covering Investment Principles, Funding Strategy, Governance and Communication, as well as a brief summary of scheme benefits are also included within the main body of the report.

Actuarial Arrangements

The detailed actuarial report on the Fund can be found on pages 44 to 45. This outlines the approach taken to secure Fund solvency while keeping employer contributions stable and also gives details of the actuarial assumptions and methods used to value liabilities at the last triennial valuation. 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 funding levels at the end of each financial year since the last triennial valuation are shown in the graph below. The detailed triennial valuation of the Fund as at 31st March 2019 is currently being undertaken, with the funding level, as at 31st March 2019, being



reported towards the end of the 2019/20 financial year. The Fund commissioned an interim funding level assessment as at 28th February 2019 which indicated the Fund was 86.4% funded. Further details of the rationale and assumptions used to calculate these funding levels can be found in the main body of the report.

Investment and Fund Performance

During 2018/19 the Fund achieved a +5% return on its investments, placing it into the bottom quartile of LGPS Funds for the year, as calculated by PIRC Local Authority Pension Performance Analytics (who monitor the performance of Pension Funds). Despite this, the long-term performance of the Fund has been positive, particularly over a ten year period, where annualised performance was +11.2%, placing the Fund in the top quartile of LGPS Funds over that period.

An analysis of the performance of the Fund compared with 64 other LGPS Funds and its strategic benchmark is shown on the right. The position of the Gloucestershire Fund is presented as a red diamond in each of the relevant bars. The higher the positioning, the higher the Fund scored in comparison to it's peers in terms of absolute return over 3, 5, 10 and 20 year periods.

The value of the Fund's assets as at 31st March 2019 was £2,379 million. This represented an overall increase of £139.3 million compared with the position at 31st March 2018. The value of the Fund at the end of the last ten financial years is shown in the graph on page 6.

The Fund undertakes their investments in accordance with the Strategic Asset Allocation which is set out in the Investment Strategy Statement (ISS), which is agreed by the Pension Committee and a copy of this policy, along with details of the Fund's investment and performance, is available on pages 27 to 39 of the full report.

Statement of Accounts

The full Statement of Accounts of the Fund for the year ended 31st March 2019 and the auditors report in relation to these accounts can be found on pages 52 to 88.

Scheme Details

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

Following a review by the Public Service Pensions Commission a new LGPS scheme was introduced, commencing from 1st April 2014. The terms of the 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.

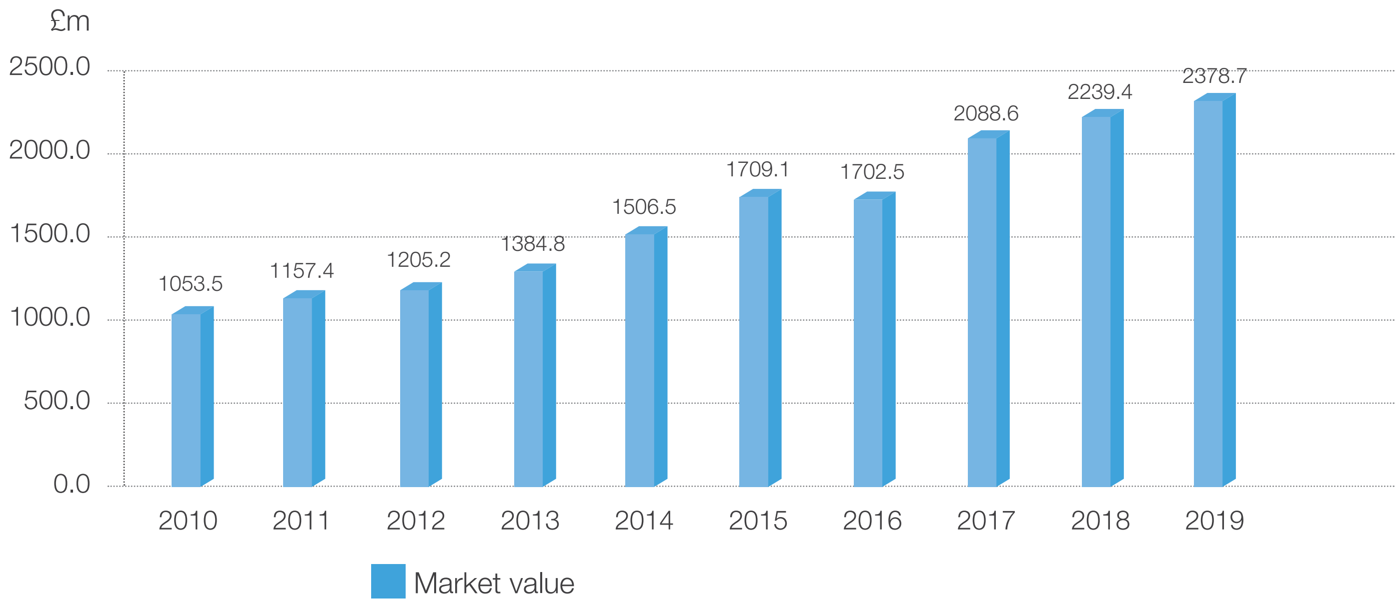
Further information on the main features of the new 2014 LGPS scheme can be found on pages 129 to 130.

Pensions Administration

Details relating to the administration of the Gloucestershire Pension Scheme

	3 years	5 years	10 years	20 years
Fund	10.1%	8.4%	11.2%	5.9%
Universal Average	10.5%	8.8%	10.7%	6.4%
Ranking	(30)	(37)	(13)	(32)

Market value of Fund by year £m



are shown on pages 16 and 17 and also within the Administration Strategy at page 118.

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 2018/19, is to assist administering authorities in ensuring compliance with LGPS and other pension regulations. More details of the membership, meetings and work of the Gloucestershire Pension Board in relation to 2018/19 can be found on pages 46 and 48.

LGPS Pooling

In July 2015 the Government announced their intention for LGPS Funds to set up investment pooling arrangements. This involves a number of LGPS Funds with assets totalling approximately £30 billion jointly investing in the various asset classes, as chosen by each Fund, via a FCA approved organisation. The aim of this approach is to reduce investment manager fees whilst not adversely affecting, or even improving, individual Fund investment performance. During 2016/17 the Government approved and issued new investment regulations for the LGPS Funds to both facilitate and ensure investment pooling took place.

The Gloucestershire Fund is collaborating with nine other LGPS Funds from the South West of England and has established a new FCA regulated investment pooling company called the Brunel Pension Partnership (BPP). This process is ongoing and the ten Funds are continuing to transfer their investments into the BPP as envisaged by Government. As at 31st March 2019, £889m of Gloucestershire investments have been transferred to the BPP. Further details of our pooling progress can be found on pages XX and YY of the full report.

Our Thanks

We express our thanks to all those involved with the investment, accounting and pension administration activities of the Gloucestershire Fund, and the development of the Brunel Pension Partnership. In this, we acknowledge the continuing work of the members of the Pension Committee, whose membership is shown on page 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 46, in assisting the administering authority to comply with the LGPS and other pension regulations.

Cllr Raymond Theodoulou
Chairman of the Pension Committee

Steve Mawson
Director of Corporate Services

Paul Blacker
Director of Finance

Independent Investment Advisor's Report

Economic background

The global economy entered the financial year to March 2019 in good shape with all major regions delivering solid economic growth with low inflation, however, as the year unfolded, the global economy took a more erratic path than expected.

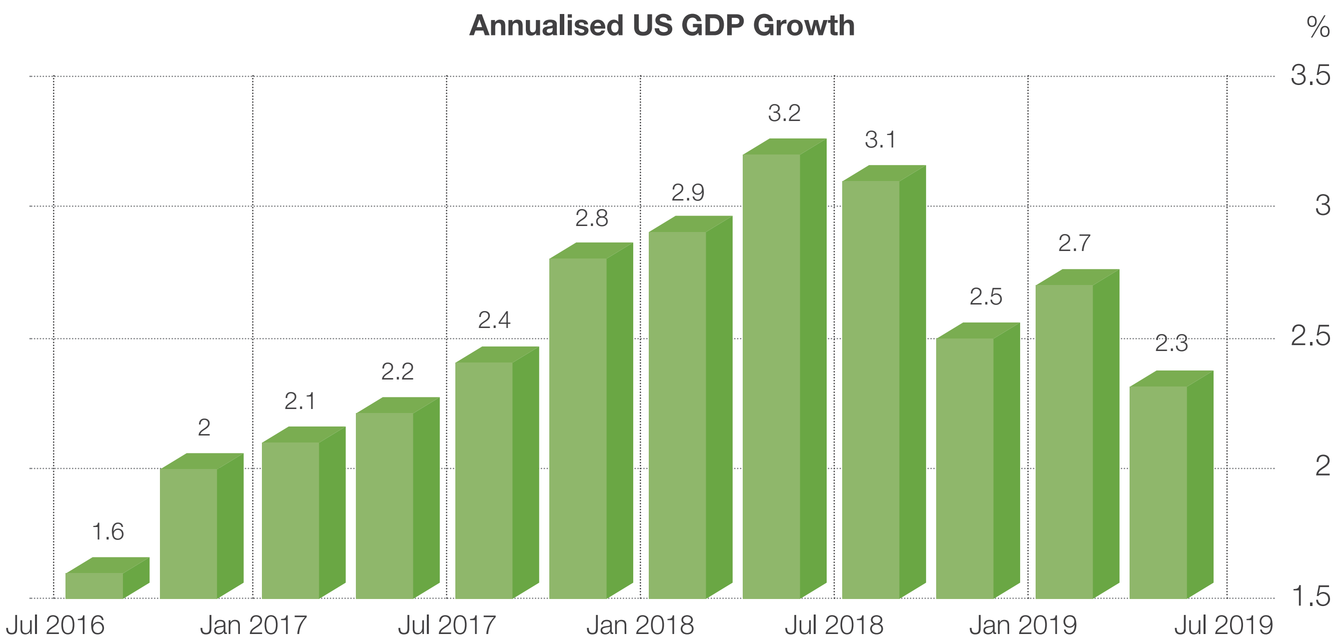
Early in the financial year, global economic growth finally seemed to have developed its own momentum with a synchronised upturn across the major economic regions, central banks, led by the US Federal Reserve, began to remove some of the extraordinary monetary stimulus they had deployed since the 2008 Global Financial Crisis. As we entered the financial year to March 2019, the expectation was for the US Central Bank (the Fed) to continue to raise interest rates and to withdraw funds from financial markets. In the event, as the chart below shows, economic growth in the US faltered through the year.

The chart below shows annualised US GDP (%) growth derived from quarterly data.

It was the slowdown in economic growth, particularly in the US, which unsettled markets in the final quarter of 2018. Initially, the US Fed was slow to react to the changing outlook and it was only post a market fall that the Fed indicated a desire to reduce interest rates into the slowing economy rather than raise them. This underlines the market's dilemma, if economic growth strengthens then Central Banks will wish to reduce their economic stimulus and raise interest rate, which, as seen in the fourth quarter of 2018, could well lead to a fall in the value of many assets including equities. If the economy weakens then the Central Banks could increase their economic stimulus and cut rates further, thereby pumping more money into financial assets and driving them higher but this has to be followed by higher corporate profits otherwise it is just prices which are being pushed up making assets more and more expensive.

In Europe, economic growth continued at a more muted pace and whilst the US delivered GDP growth of 3.1% over the course of the 2018/19 financial year, Europe delivered 1.2% and Japan 0.9%. China also saw some deceleration but still delivered 6.4% GDP growth over the period.

Throughout the year inflation globally remained subdued despite historically high levels of employment in the US and UK and the first signs of rising real wages in these regions. This lack



Source: Tradingeconomics.com | U.S. Bureau of Economic Analysis of inflation has been pivotal to encouraging Central Banks to again move back towards more stimulatory measures as GDP growth has slowed.

The uncertainty over the future strength of economic growth across the globe has been further hampered by a number of political issues including trade spats between the US and China/Mexico/EU and by increased tensions in Iran. With US presidential elections due next year this situation is unlikely to change with the danger of Iran, in particular, becoming a political focus for a number of conflicting reasons.

As regards Brexit, because mainland Europe is the UK's largest trading partner, any disruption to the flow of goods between these two trading partners will have a detrimental impact on both the UK and European economy. As such, Brexit will be negative for the UK economy in the short term whatever form it takes. The softer the Brexit the less this impact will be as the changes to trading regulations and practices will be minor. A hard Brexit or no agreement could lead to substantial barriers to trade including tariffs and could create a sudden sharp shock to the economy. The question is whether this short term impact will be worth the greater flexibility this gives the UK government in setting future policy. The softer the Brexit the less the short term economic impact but the more the UK will remain bound by EU regulations and the less flexibility this will give the Government to set policy which directly benefits the UK economy, the harder the Brexit the greater the short term impact but the greater the freedom with which future economic policy can be set. The UK is an innovative and entrepreneurial society and I have no doubt it will recover from whatever form of Brexit is finally agreed but this will take some time and, under a no deal Brexit, it may take many years to fully recover from the disruption and higher trading costs incurred, with any savings from not contributing to the EU budget quickly lost in slower GDP growth and any potential recession lowering tax returns.

Market returns

All major asset classes produced positive returns in the year to March 2019 although it did not always seem this would be the case. September to December 2018 produced one of the most negative market environments we have seen since the Global Financial Crisis in 2008 and was the first negative quarter for many asset classes since 2015. It was only a strong rebound in asset prices in early 2019 which delivered positive returns over the twelve month period to March 2019.

Global Equities returned 12.0% over the 2018/9 financial year as measured by the MSCI All Countries World index, led by the US market up over 20% (S&P) although an element of these high returns was from the weakness of Sterling, particularly against the US Dollar. UK Equities lagged but still rose by 6.7% (FT All-Share).

Bond markets also had a roller coaster year, US 10 year government bond yields peaked in November 2018 at 3.2%, having started the year at 2.7%. By the 31st March 2019 they were down to 2.4%, driven by the moderating outlook for economic growth, low inflation and the change in the Fed's policy stance. This fall in yields was matched by UK 10 year Government Gilts, which fell to a yield of less than 1%, but the weakness and political uncertainty in Europe drove 10 year German government bond yields down by 0.55% and into negative territory at a yield of -0.07%. This means that if you lend money to the German Government you will get fractionally less back in ten years time that you originally invested!

Fund returns

Gloucestershire County Council Pension Fund returned 5.0% over the fiscal year 2018/19 taking the fund to a value in excess of £2.37 billion. The return achieved by the fund was below the 6.0% return of its strategic benchmark for the year. Over a 10 year period, the Fund has marginally outperformed the return of its strategic benchmark returning 12.2% against 12.0% per annum.

The Fund return over the period was driven by its holdings in equities and property, the underperformance against the benchmark was due to a slightly disappointing performance by the managers employed by the Fund, specifically in Equities, Multi Assets and Bonds.

The Fund has commenced the transition of its assets to the Brunel

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

During the year the Fund's holdings in UK Equities and those managed passively against a benchmark in Global Equities, have been successfully transitioned across to the Brunel pool. Brunel is responsible for the selection of investment managers going forward whilst the Gloucestershire County Council Pension Fund remains responsible for the strategic asset allocation of the Funds.

Outlook

The outlook for the global economy remains uncertain, this economic expansion is now the longest in recent history but it has been a slow recovery post the Global Financial Crisis ten years ago. Central Banks have used unconventional policy actions to force long term lending rates down and encourage an economic expansion. Ideally they would have like the economic expansion to become self-sustaining which would have allowed them to reverse some of these unconventional policies and raise interest rates to above inflation. The US Fed started upon this course in 2018 but their economy soon showed signs of weakening and at the time of writing they look to be moving back towards cutting interest rates to shore up this economic expansion.

Adding to this uncertainty is the political tension in various parts of the world and in many areas the advent of a more inward looking and populist mentality by much of the political class.

Because of this uncertainty, I would expect low returns from most asset classes over the next 5 years and the potential for higher volatility that we have experience in the recent past. This emphasises the importance of a diversified portfolio of assets where the sources of return are genuinely diverse and lowly correlated.
The investment strategy for the Gloucestershire County Council Pension Fund reflects the need to generate good long-term returns while smoothing short-term volatility through diversification in asset classes, geography, managers and investment styles. The bias remains on growth through a well-diversified portfolio of quoted equities, bonds, property and actively managed Diversified Growth Funds. By working in partnership with Brunel, the Fund should be able to access a wider range of investment opportunities going forward, which should help it mitigate further the risk and volatility of returns over the medium to long term. Diversification is not a guarantee of positive returns in itself but it should led to a smoother journey over the long term.

John Arthur

July 2019

Overall Fund Management

Scheme Management and Advisors

Administering Authority: Gloucestershire County Council

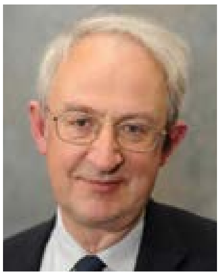
Pension Committee at 31st March 2019

Representing Gloucestershire County Council:

Cllr. R. Theodoulou (Chairman)

Cllr. D. Brown

Cllr. C. Hay

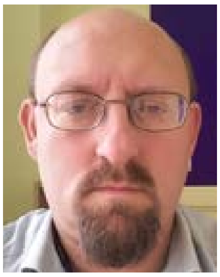


Cllr. S. Parsons

Cllr. R. Smith

Cllr. L. Stowe

Representing Gloucestershire District Councils:
Cllr. N. Cooper



Representing Scheme Members:
Mr. P. Clark

County Council Officers:
Mr. P. Blacker
Acting Strategic Finance Director
(and Section 151 Officer)

Mr. M. Spilsbury
Head of Pension Fund

Mr. A. Bull
Finance Manager - Pension Investments & Accounting

Asset Pool and Asset Pool Operator
Brunel Pension Partnership Ltd.
www.brunelpensionpartnership.org
e-mail: info@brunelpp.org

Independent Advisor:
Mr. J. Arthur, AllenbridgeEpic

Fund Actuary:
Mrs J. West, Hymans Robertson LLP
Mr. D. Green, Hymans Robertson LLP

Scheme Administrator:
Gloucestershire County Council

Investment Managers as at 31st March 2019:
Aberdeen Standard Investments (formerly Standard Life)
BlackRock Advisors (UK) Ltd.
BlueBay Asset Management LLP
Brunel Pension Partnership Ltd.
CBRE Global Investment Partners (CBRE)
Golub Capital Partners International
Hermes Investment Management
Western Asset Management Company
Technology Venture Partners LLP (TVP)
Yorkshire Fund Managers Equity Partners (YFM)

AVC Provider:
Prudential Assurance Company Limited
Phoenix Life Limited

Auditor:
Grant Thornton UK LLP

Global Custodian:
State Street Global Services

Performance Measurement:
State Street Global Services
PIRC Limited

Banker:
HSBC

Legal Advisor:
Gloucestershire County Council in-house legal team

Post Year-End Changes

There are no year-end changes to report.

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

Benefits and Administration
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 112 to 115 of this report.

In addition, the Fund's Statement of Investment Principles was superseded by the Investment Strategy Statement (ISS) with effect from 1st April 2017 and should be read in conjunction with the Fund's Funding Strategy Statement (FSS). The ISS sets out the roles of the Fund's investment managers and custodian, who have a responsibility for the management and safeguarding of the Pension Fund's assets, as well as the requirement to invest money in a wide variety of investments. The ISS also covers the authority's approach to risk, including the ways in which risks are to be measured and managed, as well as the approach to pooling investments, including the use of collective investment vehicles and shared services. The statement outlines the authority's approach on how social, environment or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments, and the authority's policy on the exercise of rights (including voting rights) attaching to investments.

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

Other Third Party Risk

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

Other Investment Risk

The Pension Fund employs an Independent Investment Advisor to assist and advise the Pension Committee. Investment performance is reviewed by committee every quarter. 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 2018/19 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.

The Investment Strategy Statement (ISS) contains further details of how the Fund controls risk linked to its investments. There is an additional note on the Nature and Extent of Risks Arising from Financial Instruments within the Notes to the Accounts on pages 76 to 81.

In addition to the risks identified within the ISS, the Internal Audit, Risk and Assurance function carries out audits of the Pension Fund in accordance with their Internal Audit Plan each year. During 2018/19 the following conclusion was reached in relation to work carried out for the period:

'The 'Management of LGPS – Annual Governance Statement 2018/19' review did not identify any significant risks/assurance gaps which would require reporting by exception within the GCC Annual Governance Statement 2018/19.'

The following table summarises the assurance stream which supports the Pension Assurance Statement for 2018/19.

Area	Findings
Governance	- Pensions Committee and Pensions Board in place, both with defined responsibilities. Full agenda, reports and minutes 2018/19 made available to ARA for review. - Head of Pensions reports to the GCC Section 151 Officer (part of the GCC Corporate Management Team). - Fund Actuary: Hymans Robertson. - Independent Advisor: Allenbridge (Epic). - Global Custodian and performance measurement: State Street Global Services and PIRC Ltd. - Key policies and procedures confirmed as in place. - Member and Officer training completed within 2018/19. - 2017/18 statement of accounts and annual report (including Fund Governance Compliance Statement and Governance Policy Statement) unqualified. - Fortnightly meetings held for Committee Chair & Service Head. - Detailed Governance Policy Statement and Governance Compliance Statement completed within the Annual Report.
Performance Monitoring	-Pensions Committee and Pensions Board agenda, reports and minutes 2018/19 confirmed: • Confirmed investment requirements and targets through the Investment Strategy Statements. • Regular & timely performance reporting for the overall Fund including BPP, with separate submitted reports for the BPP detail. Including assessment of returns. • Service targets and KPIs through the Pension Fund Business Plan; Pensions Administration Report and the Annual Report.
Risk Registers	- Gloucestershire Pension Fund Risk Register (GPFRR) held and reported. - Follows a standard template (inherent and residual risk) and risk scoring approach. Head of Service is lead risk owner. - Review of audit trail confirmed GPFRR reviewed, updated and discussed/challenged (including changes & risk direction of travel) at each Pension Committee and Pension Board meeting within 2018/19. - CIPFA managing risk in the LGPS risk categories considered within the GPFRR. - No high risk residual scores are within the GPFRR as at May 19.
External Audit and Internal Audit	- Unqualified 2017/18 external audit opinion from Grant Thornton. - 2018/19 GCC Internal Audit Plan includes 4 specific LGPS reviews. Two have been reported as at May 19 – both as either satisfactory/substantial assurance.

Area	Findings
External Fund Managers	- Most recent finalised audited Statement of Accounts and internal control reports have been received from the 9 fund managers in place as at 31/03/2019. - No qualified opinions have been reported to date. It is noted that some opinions include noted exceptions by external audit e.g. where certain Fund Manager activities were not completed for part of the opinion period (e.g. no data migration/ withdrawal of client monies). - More up to date opinions have been requested in certain cases (Standard Life Investments and Golub Capital). Feedback from both entities has confirmed documentation will be supplied in June 19. - Regular contact evident between Head of Service, Independent Advisor and Fund Managers.
Brunel Pensions Partnership (BPP)	- BPP annual report and financial statements obtained for the year ended 30/09/2018. Unqualified audit opinion. - Above document confirms governance structure, assurance providers and relevant advisors. - Pensions Committee and Pensions Board agenda, reports and minutes 2018/19 evidence review and discussion/challenge of BPP relevant outcome reports – e.g. transition update; performance update; pooling arrangements; etc. - GCC LGPS direct link to BPP governance structure – including (but not exclusive to) the Brunel Oversight Board; the Brunel Client Group; and a number of Sub Groups (e.g. the technical sub group re. pooling arrangements).

> Financial Performance

The Fund account (page 45) indicates an increase in the net assets of the scheme available to fund benefits during the year of £139.3m for 2018/19; this follows an increase of £150.8m in 2017/18. The summarised figures are shown in the table below.

Financial Summary

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Contributions and investment income *	122.7	124.3	140.0	168.3	**145.7**
Realised profit/(loss)	21.0	14.1	237.9	55.9	**196.4**
Less benefits and other expenses *	(110.6)	(82.8)	(88.7)	(91.8)	**(97.3)**
Annual surplus/(shortfall)	33.1	55.6	289.2	132.4	**244.8**
Increase/(decrease) in market value of investments	169.5	(62.2)	96.9	18.4	**(105.5)**
Increase/(decrease) in Fund during year	202.6	(6.6)	386.1	150.8	**139.3**
Market Value of net assets at 31st March	**1,709.1**	**1,702.5**	**2,088.6**	**2,239.4**	**2,378.7**

* Excludes recoverable expenditure

Fund Account (inflows) and outflows

The following table shows the income and expenditure of the Pension Fund over the last five years together with an estimate for 2018/19.

Fund Account		2014/15 Actual £000	2015/16 Actual £000	2016/17 Actual £000	2017/18 Actual £000	2018/19 Actual £000	2019/20 Budget £000
Contributions:	Employers	-76,113	-81,156	-87,923	-112,820	-93,016	-85,000
	Employees	-16,753	-17,292	-17,625	-17,795	-18,114	-18,000
Transfers in		-3,708	-1,131	-7,100	-6,733	-6,736	-5,425
Bulk transfer values in		-2,556	-	-94	-	-	-
Other income		-157	-139	-151	-143	-132	-132
Benefits payable		71,008	71,937	76,653	78,170	83,460	85,000
Payments to and on account of leavers		133	165	177	297	372	253
Transfers out		3,579	2,200	3,146	5,974	4,992	4,078
Bulk transfer values out		29,012	1,078	338	-	-	-
Net additions/withdrawals from dealings with members		**4,445**	**-24,338**	**-32,579**	**-53,050**	**-29,174**	**-19,226**
Investment management expenses		5,753	6,136	6,698	5,783	6,492	5,800
Administration expenses		933	1,002	1,133	1,217	1,397	1,500
Oversight & Governance expenses		407	475	694	418	553	500
Investment income		-23,614	-24,723	-27,256	-30,849	-27,681	-27,627
Profit, loss and change in market value		-190,503	48,019	-334,803	-74,344	-90,864	-112,998
Net increase (-) / decrease in the Fund		**-202,579**	**6,571**	**-386,113**	**-150,825**	**-139,277**	**-152,051**

Income

During 2017/18, a number of scheduled bodies chose to pay one-off secondary contributions of £27.2m to the Fund in relation to their 2018/19 and 2019/20 rates. As a result these bodies benefitted from a reduced secondary contribution payment which is reflected in the apparent reduction in contribution income in 2018/19. The 2019/20 contribution forecast takes account of the final year of reduced contributions from a number of scheduled bodies and also allows for a steady increase in line with membership growth expectations.

During 2018/19 two long standing admission bodies exited the Fund resulting in one-off cessation deficit payments totalling £13.4m as per the terms of their admission agreements.

Transfer values received have remained broadly constant between 2017/18 and 2018/19. The 2019/20 forecast assumes that this will continue for a further year.

Investment income fell by £3.2m between 2017/18 and 2018/19 from £30.8m to £27.7m. This was primarily due to the transition costs of moving assets into pooled funds within the regional asset pool.

Investment income for 2019/20 is forecast to remain broadly consistent with 2018/19, assuming that investment returns remain comparable during the period, and transition costs continue to accrue.

Expenditure

Investment management expenses in 2018/19 increased by £0.71m in comparison to 2017/18. This expenditure increase reflected an increase in pooling costs as well as an increase in market value of fund investments upon which management expenses are based upon. We anticipate a reduction in these expenses in 2019/20 as savings begin to be realised as a result of pooling as well as the removal of budget provision for a potentially large performance fee that could have been payable under a previous investment mandate prior to the transition to the Brunel PP mandate.

Payments to beneficiaries in respect of pensions have increased by £5.29m from £78.17m in 2017/18 to £83.46m in 2018/19. The 2019/20 forecast figure is based on current expectations for pensioner growth during the period.

Administration expenses increased by £0.18m during 2018/19 to £1.4m as the Fund continued its commitment to an increased resource plan for the administration team. The 2019/20 forecast expectation of administration expenses includes a £0.3m increase to facilitate the third stage of the increased resource plan, as well as a permanent budget allowance for the hosting of Altair Pension Administration software following the award of a contract commencing 1st April 2019.

Cash flow

For 2018/19 the inflow of cash to the Fund continued to exceed the outflow. Details of the net cash inflow to the Fund for the past 5 years and a forecast for the following year are shown below:

	2014/15 Actual £000	2015/16 Actual £000	2016/17 Actual £000	2017/18 Actual £000	2018/19 Actual £000	2019/20 Forecast £000
Net cash inflow	15,117	44,783	55,028	78,433	49,929	43,846

There are a number of factors that affect the size of the net cash inflow. These factors include changes in the levels of retirements and pensioner numbers, contribution levels, dividend income and transfers into and out of the scheme. During 2018/19 one-off exit payments of £13.447m were received from employers leaving the Pension Fund whilst 17/18 contained deficit contributions of £27.223m paid early.

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.

	2015/16		2016/17		2017/18		2018/19		2019/20
	Budget £000	Actual £000	Budget £000	Actual £000	Budget £000	Actual £000	Budget £000	Actual £000	Budget £000
Administrative costs									
Staff costs	692	551	769	586	807	656	832	742	917
Premises	42	46	49	66	52	65	52	74	70
IT	173	186	192	209	317	212	319	287	406
Supplies and services	183	174	220	182	205	206	256	220	240
Other central costs	51	41	59	47	60	61	61	66	60
Cost of democracy	-	-	-	-	-	-	-	-	-
Other	-	4	-	43	-	17	-	8	-
	1,141	**1,002**	**1,289**	**1,133**	**1,441**	**1,217**	**1,520**	**1,397**	**1,693**

	2015/16 Budget £000	2015/16 Actual £000	2016/17 Budget £000	2016/17 Actual £000	2017/18 Budget £000	2017/18 Actual £000	2018/19 Budget £000	2018/19 Actual £000	2019/20 Budget £000
Oversight & governance costs									
Staff costs	142	140	181	189	193	175	200	169	210
Audit fees	24	24	25	24	38	20	31	18	19
Actuarial fees	117	199	213	326	214	196	210	207	300
Pension Committee/ Board	1	1	3	1	5	1	5	2	2
Performance monitoring service	19	37	39	23	39	30	37	83	19
Investment consultancy	20	20	21	20	21	21	22	24	30
Other professional fees	31	54	44	111	350	-25	653	50	980
	354	**475**	**526**	**694**	**860**	**418**	**1,158**	**553**	**1,560**

The increase in staffing budget in the Administration team between 2018/19 and 2019/20 relates to the anticipated appointment of three additional senior pension officers that will be appointed to assist with the Fund objective of targeting the more technical areas of the administrative role provided to members.

Actuarial fees within Oversight & Governance contain actuarial expenses of £126,000 (2017/18 £130,000) which arose as a result of employer requests and was therefore recharged back to them. Net actuarial fees for 2018/19 were £81,000 (2017/18 £65,000).

A forecast budget increase of £90,000 has been allowed for in 2019/20 in relation to the Fund undertaking the triennial valuation carried out by the Fund actuary.

Other professional fees include a budget increase of £327,000 in relation to the estimated increase in Brunel Pension Partnership costs that will be chargeable to the Fund, following the increase in the BPP budget in 2019/20, as approved via a Special Reserve Matter approved by all of the Shareholders of the BPP.

	2015/16 Budget £000	2015/16 Actual £000	2016/17 Budget £000	2016/17 Actual £000	2017/18 Budget £000	2017/18 Actual £000	2018/19 Budget £000	2018/19 Actual £000	2019/20 Budget £000
Investment management expenses									
Management fees	4,594	4,902	4,913	4,953	4,562	4,586	6,500	5,342	5,800
Performance fees	836	463	775	377	578	432	-	544	-
Transaction costs	-	695	-	1,228	-	656	-	428	-
Custody fees	96	76	78	118	90	101	90	176	90
Tax & legal costs	-	-	-	22	-	8	-	2	-
	5,526	**6,136**	**5,766**	**6,698**	**5,230**	**5,783**	**6,590**	**6,492**	**5,890**

The budget for Management Fees has seen an overall reduction of £700,000 in 2019/20 as a result of the removal of a potentially large performance fee that could have been payable under a previous mandate prior to the transition to the Brunel Active UK Mandate.

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

Analysis of pension contributions

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

Employee and Employer Contributions	Total	On Time		Late	
	£000	£000	%	£000	%
2014/15	90,000	89,500	99.40	500	0.60
2015/16	97,000	96,600	99.60	400	0.40
2016/17	103,000	102,900	99.90	100	0.10
2017/18	128,000	127,950	99.95	50	0.05
2018/19	108,000	107,850	99.84	150	0.16

In total 21 (15 2017/18) monthly payments were received late, of which 15 were received within one month, one was received within two months and five, from the same employer, paid within seven months. (2017/18, 14 received within one month and one within three months).

During 2018/19 the option to levy interest on overdue contributions was not exercised (2017/18 £9,450 was charged).

Analysis of pension overpayments

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Pension overpayments b/fwd.	7.6	23.5	29.1	67.3	29.7
Pension overpayments in the current year	38.6	29.8	88.4	33.0	59.3
Overpayment recovered	(21.9)	(24.1)	(50.2)	(61.1)	(46.1)
Overpayments written off	(0.9)	(0.2)	-	(9.5)	(9.7)
Pension overpayments c/fwd.	23.4	29.0	67.3	29.7	33.2

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

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

- Active pensioners with Department of Works and Pensions (DWP) deceased records, to identify cases where we might be continuing to pay someone who has died;
- Pensioners with payroll records for public sector bodies to identify cases where pensions should be abated; and
- Pensioners receiving an enhanced injury pension with individuals receiving relevant state benefits to identify cases where they have failed to declare relevant state benefits that may remove or reduce entitlement to the enhanced pension.

During the 2018 exercise Match reports were reviewed and additional information sought as necessary. The reports identified 19 pensioners who had died where the Pensions Section had not been informed of their death and total overpayments amounted to £19,116. As at August 2019 £9,028 had been recovered. None of the cases identified were suspected of fraud.

Investment Policy and Performance Report

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 2018/19 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 47 to 51.

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

Investment Management

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

The Fund's Investment Managers are:	Mandate	Bid Market Value 31st March 2019 £m
Investments managed by the Brunel Pension Partnership regional asset pool		
Brunel Pension Partnership	UK Equities	365.8
Brunel Pension Partnership	Private Equity and Infrastructure Portfolio	2.3
Legal & General Investment Management	Passive Equities	521.2
Investments managed outside of the Brunel Pension Partnership regional asset pool		
BlackRock	Global Equities Including Emerging Markets	476.6
	Emerging Markets	142.7
Standard Life Investments	UK Equities	1.2
	Global Multi Asset Absolute Return Fund	78.2
Western Asset Management	Global Fixed Interest	344.3
	Global Multi Strategy Fixed Interest	183.4
BlueBay Asset Management LLP	UK Private Debt	22.3
Golub Capital Partners International	Overseas Private Debt	20.1
CBRE	Global Property	61.7
Hermes Investment Management	UK Property Unit Trusts	140.7
Technology Venture Partners	Private Equity	3.6
YFM Group	Private Equity	1.3

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

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

Fund Performance

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

To 31st March 2019 the Fund realised the following returns:

	Fund % p.a.	Strategic Benchmark % p.a.
1 year	5.0	6.9
3 years	10.1	10.4
5 years	8.4	9.3
10 years	11.2	11.0

For general market background information the following shows rates of return achieved on representative market indices over the 12 months to 31st March 2019:

- A year of global political uncertainty, a burgeoning trade war and no resolution to the Brexit issue hampered Local Authority fund returns during 2018/19. However, despite this, all major asset classes produced positive returns in the year to March 2019.
- Assets returns were tightly grouped with bonds, property and equities returning 4%, 6% and 7% respectively for the year.
- Most Local Authority funds failed to outperform their benchmarks this year.
- Active global equity performed strongly in the last year with the average global equity portfolio delivering returns of 8.6% to March 2019.
- Alternatives including Private Equity and Infrastructure performed strongly in the year delivering average returns of 15.3% and 11.7% respectively.
- Bond returns were the poorest of the major asset classes with an average universe performance of 3.7% for the year.

Local Authority Universe

For 2018/19, 64 local authority funds were included directly in the PIRC Local Authority Pension Performance Analytics Universe. The average investment return achieved by Local Authority Pension Funds within the Universe for 2018/19 was 6.6% (including property assets), placing Gloucestershire 55th out of the 64 funds.

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

Average returns over:	Local Authority Universe %
1 year	6.6
3 years	10.5
5 years	8.8
10 years	10.7

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 64 local authority pension funds. The Fund performance was ranked 55th out of 64 over one year and 30th out of 64 over the three year period. Ten year performance placed the Gloucestershire Fund 13th.

Investment Performance

31st March 2019 investment returns over 1 year, 3 years, 5 years and since inception as derived from the various asset categories in the Gloucestershire Fund compared to the specific performance benchmark used for each asset class:

	Since Inception		1 year		3 years		5 years	
	Fund %	B/mark %	Fund %	B/mark %	Fund %	B/mark %	Fund %	B/mark %
Asset Pool Managed Investments								
Equities								
UK Active*	6.0	6.0	n/a	n/a	n/a	n/a	n/a	n/a
Passive Low Carbon*	1.1	1.2	n/a	n/a	n/a	n/a	n/a	n/a
Passive Smart Beta*	1.4	1.6	n/a	n/a	n/a	n/a	n/a	n/a
Passive Developed*	0.9	1.0	n/a	n/a	n/a	n/a	n/a	n/a
Passive Developed Hedged*	-0.5	-0.4	n/a	n/a	n/a	n/a	n/a	n/a
Alternatives								
Private Markets Infrastructure*	-9.5	-0.1	n/a	n/a	n/a	n/a	n/a	n/a
Private Markets Private Equity*	9.4	2.4	n/a	n/a	n/a	n/a	n/a	n/a
Non-asset Pool Managed Investments								
Equities								
Emerging Markets Passive	7.3	7.0	-0.1	-0.3	14.5	14.4	9.3	8.9
Global	10.0	9.5	8.1	10.5	15.4	14.4	12.8	11.8
Fixed Interest								
Global	6.2	6.6	1.8	3.3	5.4	5.6	6.8	7.2
Global Multi Strategy	3.5	2.6	-0.6	2.8	4.5	2.6	2.9	2.6
Property								
UK Unit Trust	6.8	5.1	6.7	5.7	8.1	6.9	11.1	9.6
Global	9.0	8.4	7.3	5.4	6.7	7.1	9.1	9.7
Alternatives								
UK Private Debt*	7.2	5.7	8.1	5.9	n/a	n/a	n/a	n/a
Overseas Private Debt*	8.7	5.7	17.4	5.9	n/a	n/a	n/a	n/a
Global Absolute Return	2.8	5.7	-0.0	6.0	0.8	5.7	1.8	5.7

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

The 10 year total fund performance returns are shown on page 31. Performance returns by fund manager are shown below.

Net investment performance by fund manager against benchmarks as at 31st March 2019, annualised for 1, 3 and 5 years and since inception:

	Mandate	Benchmark	Since Inception Portfolio %	Since Inception B/mark %	1 year Portfolio %	1 year B/mark %	3 years Portfolio %	3 years B/mark %	5 years Portfolio %	5 years B/mark %
Asset Pool Managed Investments										
Brunel	UK Active Equity	FTSE All Share	6.0	6.0	n/a	n/a	n/a	n/a	n/a	n/a
Brunel	Private Markets Infra-structure	Consumer Price Index	-9.5	-0.1	n/a	n/a	n/a	n/a	n/a	n/a
Brunel	Private Markets Private Equity	MSCI All Country World Index	9.4	2.4	n/a	n/a	n/a	n/a	n/a	n/a
Brunel	Passive Low Carbon	MSCI World Low Carbon	1.1	1.2	n/a	n/a	n/a	n/a	n/a	n/a
Brunel	Passive Smart Beta	SciBeta Multifactor Composite	1.4	1.6	n/a	n/a	n/a	n/a	n/a	n/a
Brunel	Passive Developed Equity	FTSE World Developed	0.9	1.0	n/a	n/a	n/a	n/a	n/a	n/a
Brunel	Passive Developed Equity Hedged	FTSE World Developed Hedged	-0.5	-0.4	n/a	n/a	n/a	n/a	n/a	n/a
Non-asset Pool Managed Investments										
Aberdeen Standard	Global Absolute Return	6M GBP LIBOR + 5%	2.8	5.7	-0.0	6.0	0.8	5.7	1.8	5.7
BlackRock	Global Equities	MSCI All Country World Index	10.0	9.5	8.1	10.5	15.4	14.4	12.8	11.8
BlackRock	Emerging Markets Passive	MSCI Emerging Market Index	7.3	7.0	-0.1	-0.3	14.5	14.4	9.3	8.9
Western Asset	Global Fixed Interest	ICE BoAML Sterling Non Gilts	6.2	6.6	1.8	3.3	5.4	5.6	6.8	7.2
Western Asset	Global Multi Strategy Fixed Interest	3M GBP LIBOR + 2%	3.5	2.6	-0.6	2.8	4.5	2.6	2.9	2.6
Hermes Investment	Property	MSCI UK PPF Balanced PUT	6.8	5.1	6.7	5.7	8.1	6.9	11.1	9.6
CBRE	Property	MSCI All Balanced Property Funds Index	9.0	8.4	7.3	5.4	6.7	7.1	9.1	9.7
Golub Capital Partners	Private Debt	3M GBP LIBOR +5%	8.7	5.7	17.4	5.9	n/a	n/a	n/a	n/a
BlueBay	Private Debt	3M GBP LIBOR +5%	7.2	5.7	8.1	5.9	n/a	n/a	n/a	n/a

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

Asset Allocation – Planned compared to actual

	Strategic asset allocation target 2018/19 %	Actual asset allocation as at 31st March 2018 %	Actual asset allocation as at 31st March 2019 %
UK Equity	13.0	17.6	15.4
Emerging Markets	7.0	6.4	6.0
Global Equity	16.0	13.2	20.1
Global Equity Including Emerging Markets	22.5	26.9	22.0
Total Equity	**58.5**	**64.1**	**63.5**
Global Fixed Interest (including Index Linked Securities) & Global Multi Strategy Fixed Interest	**24.5**	**22.0**	**22.2**
UK and Global Property	**7.5**	**8.4**	**8.5**
Multi Asset Global Absolute Return	**4.0**	**3.5**	**3.3**
Cash & Venture Capital	**0.0**	**1.2**	**0.6**
Private Debt	**3.5**	**0.8**	**1.8**
Infrastructure and Private Equity	**2.0**	**0.0**	**0.1**
	100.0	**100.0**	**100.0**

Significant changes during the year:

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

Brunel Portfolio	New Proposed Allocation %	Allocation Range %
Active Equities		
UK Equities	13.0	12.0 to 15.0
High Alpha Developed Equities	14.0	11.0 to 17.0
Emerging Market Equities	7.0	5.5 to 8.5
Sustainable Global Equities	2.0	1.0 to 3.0
Passive Equities		
Developed Equities	11.0	9.0 to 13.0
Low Carbon Equities	2.0	1.0 to 3.0
Smart Beta Equities	9.5	8.0 to 11.0
TOTAL EQUITIES	**58.5**	

continued...

Brunel Portfolio	New Proposed Allocation %	Allocation Range %
Fixed Interest		
Sterling Corporate Bonds	17.0	17.0 to 22.0
Multi Asset Credit	7.5	6.5 to 8.5
TOTAL FIXED INTEREST	**24.5**	
Alternatives		
Diversified Growth Fund	4.0	3.0 to 5.0
Property	7.5	5.5 to 9.5
Private Debt	3.5	3.0 to 4.5
Infrastructure	1.0	0.5 to 2.5
Private Equity	1.0	0.5 to 2.5
TOTAL ALTERNATIVES	**17.0**	
TOTAL ALL	**100.0**	

As at 31st March 2019 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.

Scheme Administration

Administration Arrangements

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

To enable assurances to be obtained as to the effective and efficient operation of the Fund's investments, performance is benchmarked on an annual basis against other local authority pension funds subscribing to the PIRC Local Authority Pension Performance Analytics' Universe of 64 local authority pension funds. Internal controls are also in place to support the reliability and integrity of financial information and the Fund is subject to internal and external audit.

Staff contact details can be found on page 8 together with the Fund's web addresses which contain detailed documents and information on the following areas:

- The Pension Fund's policy statements.
- The actuary's triennial valuation report at March 2007, March 2010, March 2013 and March 2016.
- Annual reports from 2009/10 to the present.
- Independent Auditor's Consistency Report
- Business Plan
- Funding Strategy Statements
- Investment Strategy Statement
- Pension Board Report
- A range of guides for scheme members in "booklet" form covering different topics.
- Online copies of the various forms members may wish to use in connection with their scheme membership.
- Updates on latest developments affecting the pension scheme.
- Information on the Annual Benefit Statements.
- Administration Staff contact details
- Employer pages providing an Employer's Administration Guide and associated forms/ documentation together with other relevant information.

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

Value for money statement

The Gloucestershire Pension Fund strives to deliver value for money services to all of the members and employers within the Fund. In order to demonstrate the efficiency and effectiveness of the services provided we collect data on key service related performance indicators and cost data which is used for comparisons over time and comparisons with other Funds where possible.

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

From the performance data on pages XX to XX it can be seen that across the majority of indicators during 2018/19 performance has improved significantly. Whilst some areas remain lower than the performance levels achieved under the pre April 2014 scheme, it is evident that the investment in the administration section of the service is paying off; allowing management to clearly target the complex areas of the scheme and ensure a high quality service continues to be delivered to members. The 2019/20 budget allows for the recruitment of three additional senior pension officers which the Fund hopes will support the improvement of service delivery and performance indicators even further.

From the results of our annual satisfaction survey and level of complaints on pages xx to xx, it can be seen that the Fund receives very positive feedback from the employers within the fund, and an extremely low level of complaints from members of the fund or employers within the Fund.

These performance figures should also be viewed in the context of the cost benchmarking data shown on pages xx to xx.

These show that scheme administration costs per scheme member are over 6% lower than average, whilst fund management costs per member are around 38% lower than average, reflecting the low investment management fees achieved by the Fund. Overall these two cost factors combine to show that the total fund costs per member (administration and investment) are around 34% below average.

> Summary of activity

Key Tasks Performance Information

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

	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %
Pension contributions paid on or before the due date	99.40	99.60	99.90	99.95	99.84
Employers providing the Pension Fund with a copy of their discretions policy document (171 out of 211)	75.8	78.5	81.2	79.7	81.0
Provision of named pensions contacts for the employer	100	100	100	100	100

Activity	Target	2014/15	2015/16	2016/17	2017/18	2018/19
Annual Benefit Statements sent by statutory deadline:		31/10/15	31/08/16	31/08/17	31/08/18	**31/08/19**
	100%	0%**	100%*	100%*	100%*	**100%***
Provide retirement estimates within 15 working days						
Total completed		646	693	669	571	651
Completed on time		505	228	442	485	587
Achievement	90%	78.2%	32.9%	66.1%	84.9%	90.2%
Pay retirement grants within 15 working days						
Total completed		707	650	807	768	858
Completed on time		634	151	285	575	592
Achievement	90%	89.7%	23.2%	35.3%	74.9%	69%
Pay death grants within 8 working days						
Total completed		40	55	59	61	79
Completed on time		39	6	32	45	65
Achievement	90%	97.5%	10.9%	54.2%	73.8%	82%

* 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.

Activity	Target	2014/15	2015/16	2016/17	2017/18	2018/19
Pay refunds within 15 working days						
Total completed		n/a	n/a	290	448	620
Completed on time		n/a	n/a	203	429	609
Achievement	90%	n/a	n/a	70%	95.8%	98.2%
Pay transfer values within 15 working days						
Total completed		n/a	n/a	71	132	147
Completed on time		n/a	n/a	55	122	144
Achievement	90%	n/a	n/a	77.5%	92.4%	98%

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:

	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %
The forums had raised their understanding of current pension issues	83	100	100	100	100
Employers who felt that what they had learned at the Forum and from the Pensions office would help them in their role as a pension fund employer	88	89	100	100	100
Where I have contacted the Pensions office regarding a pension related issue, I am satisfied with the assistance given in relation to the query raised	95	93	100	100	100

Complaints received

Type of complaint	2014/15	2015/16	2016/17	2017/18	2018/19
System error	-	-	-	-	-
Staff error	1	-	-	-	2
Staff attitude	-	-	-	-	-
Total	**1**	**-**	**-**	**-**	**2**
Total as % of workload	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**

> Financial Indicators

Unit Costs per Member

	2014/15	2015/16	2016/17	2017/18	2018/19
Investment Management Expenses					
Total Costs £000	5,753	6,136	6,698	5,783	6,492
Total Membership Numbers	53,203	55,891	58,465	59,768	60,134
Cost per member £	**108.13**	**109.78**	**114.56**	**96.75**	**107.96**
Administration Expenses					
Total Costs £000	933	1,002	1,133	1,217	1,397
Total Membership Numbers	53,203	55,891	58,465	59,768	60,134
Cost per member £	**17.53**	**17.93**	**19.38**	**20.36**	**23.23**
Oversight and Governance					
Total Costs £000	407	475	694	418	553
Total Membership Numbers	53,203	55,891	58,465	59,768	60,134
Cost per member £	**7.65**	**8.50**	**11.87**	**6.99**	**9.20**
Total cost per member £	**133.31**	**136.21**	**145.81**	**124.10**	**140.39**

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

Benchmarking

The Pension Fund submits data (SF3 submission) on an annual basis to the Ministry of Housing, Communities & Local Government (MHCLG). This information provides a benchmark on the administration and fund management of the Local Government Pension Scheme and is also used in compiling the National Accounts and to show the role of pension funds in the economy. The SF3 submission is subjected to a strict validation by MHCLG and any significant variances are investigated.

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

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

	2014/15	2015/16	2016/17	2017/18
Administration costs per scheme member				
Gloucestershire County Council	22.77	26.61	32.28	27.94
All Authorities	25.19	29.80	30.24	29.80
Fund management costs per scheme member				
Gloucestershire County Council	118.46	121.33	127.77	107.80
All Authorities	144.65	148.49	155.06	175.44
Total Administration and Fund management costs per scheme member				
Gloucestershire County Council	141.23	147.94	160.04	135.74
All Authorities	169.84	178.30	185.30	205.24

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.

	2014/15	2015/16	2016/17	2017/18	2018/19
Number of full time equivalent Pension Fund staff	10.6	10.8	11.8	14.9	**14.6**
Total fund membership	53,203	55,891	58,465	59,768	**60,134**
Number of fund members to one member of administration staff	5,019	5,175	4,954	4,011	**4,119**

Other activities undertaken in 2018/19

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

Guaranteed Minimum Pensions (GMP) Reconciliation Project

During the year a reconciliation of the GMP records held by HMRC to those held by the Gloucestershire Fund continued to progress to ensure that the GMP liabilities held by HMRC relate to the Gloucestershire Fund.

Award of Pension Administration Software Contract

Two major contracts were awarded in 2018/19 in relation to the provision of the Pensions Administration software system and for a hosting solution being provided by the owner of the software to improve the quality of support arrangements and hence enhance the quality of the service provided.

Award of Actuarial Services Contract

In addition to the projects undertaken by the Administration Section the Finance and Investments Section undertook a competitive tendering exercise, under the LGPS National Framework for the award of a contract for actuarial services. Following a robust and detailed process a new contract was awarded during the year.

> Other information

Membership Summary

	2014/15	% diff	2015/16	% diff	2016/17	% diff	2017/18	% diff	2018/19
Contributors	18,141	+2.70	18,630	+1.91	18,986	-0.82	18,830	+0.74	**18,969**
Pensioners	13,719	+3.56	14,207	+3.47	14,700	+4.44	15,353	+4.59	**16,058**
Deferred pensioners	17,201	+5.51	18,149	+3.25	18,738	+3.87	19,463	+4.90	**20,417**
	49,061	+3.92	50,986	+2.82	52,424	+2.33	53,646	+3.35	**55,444**
Undecided/ unprocessed leavers	4,142	+18.42	4,905	+23.16	6,041	+1.34	6,122	-23.39	**4,690**
	53,203	**+5.05**	**55,891**	**+4.61**	**58,465**	**+2.23**	**59,768**	**+0.61**	**60,134**

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	20
M	under 15	0	0	0	10
F	15 to 19	83	0	0	17
M	15 to 19	35	0	0	20
F	20 to 24	576	123	0	14
M	20 to 24	226	100	0	26
F	25 to 29	845	752	0	8
M	25 to 29	330	403	0	2
F	30 to 34	1,133	1,210	0	0
M	30 to 34	329	531	0	1
F	35 to 39	1,569	1,600	1	1
M	35 to 39	326	605	0	1
F	40 to 44	1961	1,741	3	2
M	40 to 44	333	451	0	4
F	45 to 49	2,720	2,588	19	11
M	45 to 49	427	595	5	11
F	50 to 54	2,906	3,425	38	21
M	50 to 54	538	725	14	33
F	55 to 59	2,209	2,942	349	39
M	55 to 59	527	720	142	48
F	60 to 64	1,154	1,338	1,698	77
M	60 to 64	359	332	640	94
F	65 to 69	216	137	2,776	114
M	65 to 69	98	52	1,202	90
F	70 to 74	45	24	2,138	156
M	70 to 74	24	18	1,123	90
F	75 to 79	0	2	1,165	222
M	75 to 79	0	3	736	95
F	80 to 84	0	0	671	238
M	80 to 84	0	0	453	103
F	85 to 89	0	0	343	199
M	85 to 89	0	0	221	51
F	90 to 94	0	0	133	130
M	90 to 94	0	0	95	22
F	95 to 99	0	0	25	48
M	95 to 99	0	0	28	0
F	100 to 104	0	0	5	7
M	100 to 104	0	0	3	0
F	105 to 109	0	0	2	2
M	105 to 109	0	0	2	0
F	110 to 114	0	0	0	1
Total Members	**55,444**	**18,969**	**20,417**	**14,030**	**2,028**

Analysis of new pensioners

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

	2014/15	2015/16	2016/17	2017/18	2018/19
Normal retirement	144	156	196	195	205
Early retirement*	532	438	502	544	618
Ill-health retirement**	22	22	31	26	32
	698	**616**	**729**	**765**	**855**

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

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

Employer Summary

Please find listed opposite a summary of the number of employers in the Fund as at 31st March 2019 analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but some outstanding liabilities) during the year.

	Active	Ceased	Total
Scheduled bodies	163	2	161
Admitted bodies	42	4	38
Total	**205**	**6**	**199**

Employee Contributions

Employee contributions are prescribed by statute and are based on pay bands. The pay bands and rates applicable from April 2018 are detailed opposite:

Whilst these same rates will apply to the 2019/20 financial year, the pensionable pay banding levels have increased slightly. Employees can opt to pay 50% of the relevant contribution rate to accrue 50% of the normal pension.

Pensionable Pay	Employee Contribution Rate %
Up to £14,100	5.5
£14,101 to £22,000	5.8
£22,001 to £35,700	6.5
£35,701 to £45,200	6.8
£45,201 to £63,100	8.5
£63,101 to £89,400	9.9
£89,401 to £105,200	10.5
£105,201 to £157,800	11.4
More than £157,801	12.5

Employer Contributions

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

The results of the most recent actuarial valuation of the Fund, as at 31st March 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 was 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%
Total Common Contribution Rate	**22.3%**	**25.8%**	**32.9%**

Further information regarding the valuation and the scheme's funding position is included in the Actuarial Report on Fund on pages 39 to 40.

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 177 to 178 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 121 to 126.

2018/2019 Contributions	Employer Contributions	Employee Contributions	Total
Administering Authority			
Gloucestershire County Council*	**34,542,468**	**8,114,942**	**42,657,410**
Scheduled Bodies			
Cheltenham Borough Council	1,236,213	423,440	1,659,654
Cotswold District Council	1,783,095	55,978	1,839,073
Forest of Dean District Council	50,165	20,939	71,104
Gloucester City Council	4,228,855	332,778	4,561,633
Stroud District Council	1,857,013	604,910	2,461,923
Tewkesbury Borough Council	2,676,328	357,137	3,033,465
Cotswolds Conservation Board	76,569	23,846	100,415
Cheltenham Borough Homes	930,806	337,265	1,268,071
Farmors Sport Centre Limited	11,978	1,877	13,855
Sir William Romney Leisure Limited	19,628	2,763	22,391
Police and Crime Commissioner for Gloucestershire	5,036,563	1,452,519	6,489,082
Lower Severn Drainage Board	149,252	26,218	175,470
Parish and Town Councils (pooled)	497,152	127,300	624,452
University of Gloucestershire	4,110,793	1,151,948	5,262,741
Cirencester College	477,593	111,389	588,982
Gloucestershire College	1,872,966	396,891	2,269,856
Hartpury University	1,442,877	416,207	1,859,084

* including schools

continued...

2018/2019 Contributions	Employer Contributions	Employee Contributions	Total
Academies			
Abbey View CCT	19,028	4,788	23,816
All Saints	252,211	54,815	307,026
Balcarras School	278,817	64,238	343,055
Holmleigh Park High School (formerly Beaufort Academy)	329,013	62,075	391,088
Berkeley Primary	112,026	11,023	123,049
Berkeley UTC Academy	30,903	8,154	39,057
Bibury C of E Primary Academy	2,572	488	3,060
Bishops Cleeve Primary	154,327	35,138	189,465
Blockley Primary Academy	41,802	8,604	50,406
Bourton On The Water	84,081	18,114	102,195
Brockworth Primary	92,343	22,675	115,018
Cam Woodfield Junior Academy	45,004	9,326	54,330
Charlton Kings Infants School	88,706	18,896	107,602
Charlton Kings Junior School	81,209	15,159	96,368
Cheltenham Bournside School	381,944	59,759	441,703
Chesterton Primary Academy	51,380	11,788	63,168
Chipping Campden School	246,297	52,764	299,061
Chosen Hill School	279,785	56,953	336,738
Christ Church C of E	64,249	14,571	78,820
Churchdown School	297,709	57,166	354,875
Churchdown Village Infants	75,597	17,338	92,935
Cirencester Deer Park School	277,247	61,175	338,422
Cirencester Kingshill School	177,380	43,183	220,563
Clearwater Primary Academy	14,086	3,965	18,051
Cleeve School	275,021	59,484	334,505
Coaley C of E Primary Academy	15,465	2,579	18,044
Cotswold School	287,594	62,504	350,098
Crypt School	145,950	36,068	182,018
Dene Magna School	234,738	45,180	279,918
Denmark Road High School (formerly High School for Girls)	179,544	34,015	213,559
Diocese of Gloucester Academies Trust	50,264	24,120	74,384
Dursley Primary	116,945	24,215	141,160
Farmors Academy	160,153	34,937	195,090
Field Court C of E Infant School	110,398	24,000	134,398
Field Court C of E Junior School	80,888	15,038	95,926
Five Acres High School Academy	217,561	42,730	260,291
Forest High School	95,968	17,924	113,892
Forest View Primary	100,617	18,896	119,513
Gloucester Academy	331,601	70,865	402,466
Gotherington Primary School	51,481	7,488	58,969
Grange Primary Academy	66,236	13,142	79,378
Gretton Primary School	19,221	4,061	23,282
Hardwicke Primary School	109,423	21,524	130,947
Henley Bank High School (Formerly Millbrook Academy)	129,663	29,474	159,137
Highnam C of E Primary School	40,589	9,381	49,970
Katherine Lady Berkeley School	298,600	59,148	357,748
Kemble Primary Academy	26,120	5,679	31,799
Lakefield Primary Academy	65,939	13,194	79,133
Longford Park Primary Academy	32,132	8,448	40,580
Longney C of E Primary Academy	32,163	5,681	37,844

continued...

2018/2019 Contributions	Employer Contributions	Employee Contributions	Total
Academies (continued)			
Marling School	182,356	44,370	226,726
Minchinhampton Academy	58,720	13,913	72,633
Mitton Manor Primary Academy	50,475	10,289	60,764
Moat Primary Academy	74,468	15,438	89,906
Newent Com School	253,284	48,234	301,5187
North Cerney C of E Primary Academy	20,885	3,906	24,791
Offas Mead Primary	39,468	7,380	46,848
Pates School	242,294	58,842	301,136
Peak Academy	109,907	23,448	133,355
Primrose Hill Academy	59,196	10,867	70,063
Redmarley CofE School)	12,229	2,327	14,556
Ribston Hall School	172,384	39,751	212,135
Robinswood Primary School	293,413	68,966	362,379
Rosary Catholic Primary School	58,355	11,391	69,746
Rowanfield Infant School	66,807	13,895	80,702
Rowanfield Junior School	111,035	25,986	137,021
Severnbanks Primary	76,725	14,473	91,198
Severn Vale School	260,614	57,311	317,925
Severn View Primary	56,300	10,080	66,380
Siddington C of E Primary Academy	18,669	4,400	23,069
Sir Thomas Rich's School	170,740	35,499	206,239
Sir William Romney's School	258,810	26,070	284,880
South Glos & Stroud Academy Trust	24,765	7,148	31,913
Springbank Primary	134,870	33,989	168,859
St James Primary Academy	105,707	18,099	123,806
St Davids Primary	71,461	16,812	88,273
St Dominics Catholic Primary School	20,594	3,674	24,268
St Anthony's Academy	508	1,909	2,417
St Johns C of E Primary	46,247	9,621	55,868
St Lawrence Academy	51,376	15,202	66,578
St Mary's Catholic Primary School	63,554	14,911	78,465
St Peter's Catholic High School	409,599	83,948	493,547
Staunton and Corse C of E School	27,054	5,360	32,414
Stone with Woodford C of E Academy	23,263	3,985	27,248
Stroud High School	186,575	42,219	228,794
Tewkesbury School	302,779	65,714	368,493
The Dean Academy	247,000	45,293	292,293
The Ridge Academy	75,402	17,827	93,229
Thomas Keble School	201,552	41,718	243,270
Tredworth Infant and Nursery Academy	88,051	18,577	106,628
Whiteshill Primary Academy	21,892	3,917	25,809
Winchcombe School	136,427	26,019	162,446
Winchcombe Abbey	68,349	14,816	83,165
Wyedean School	289,070	48,081	337,151
	38,453,065	**8,331,010**	**46,784,075**

continued...

2018/2019 Contributions	Employer Contributions	Employee Contributions	Total
Admitted Bodies			
AMEY (Highways)	252,881	57,060	309,941
APCOA	27,158	5,739	32,897
Aspire Sports and Cultural Trust	71,171	28,949	100,120
Aspens Catering (Farmors)	5,313	976	6,289
Barnardos FOD and Stroud	9,675	2,223	11,898
Barnardos Gloucester	36,845	9,222	46,067
Brandon Trust	9,700	2,327	12,027
Carers Glos. Parent partnership	10,345	2,385	12,730
Cheltenham Trust	180,922	52,121	233,043
Civica (FOD DC)	-645,770	10,826	-634,944
Civica UK Ltd	213,350	48,649	261,999
Civica UK Ltd - Glos City IT	16,041	3,003	19,044
Cotswold Archaeological Trust	172,688	44,131	216,819
Enterprise (Accord Operations Ltd)	152,042	46,987	199,029
Fosseway Housing Association	7,232,000	-	7,232,000
Gardners Lane & Oakwood (Chelt. & Tewks)	126,510	37,419	163,929
Gloucester City Homes	686,661	128,234	814,895
Gloucestershire Airport	441,730	23,023	464,753
Gloucestershire Care Services NHS Trust	63,312	16,726	80,038
Gloucestershire Group Homes	74,313	15,924	90,237
Glos Rural Com Council	7,280	1,562	8,842
INTO University Partnerships	10,195	2,131	12,326
Kiddywinks (St Cats)	625	170	795
The Orders of St John Care Trust	89,487	15,572	105,059
Places for People	30,710	11,304	42,014
Prospects Youth Service	783,942	172,333	956,275
Publica (Cotswold)	1,015,613	386,137	1,401,750
Publica (Forest)	887,262	194,746	1,082,009
Ridge Crest Cleaning (Farmors)	5,286	1,101	6,387
Severnvale Housing Association	6,921,493	23,749	6,945,242
Skanska (GCC Street Lighting)	8,359	2,359	10,718
Sport & Leisure Management	114,817	28,811	143,628
Stroud Court Community Trust	66,831	17,821	84,652
Tinies UK (Glos College)	48,597	9,529	58,126
Two Rivers Housing	189,686	78,514	268,200
UBICO LTD (Chelt BC)	361,138	103,798	464,936
UBICO LTD (COTS DC)	15,183	4,530	19,713
UBICO LTD (FODDC)	28,482	6,943	35,425
UBICO LTD (Tewks BC)	160,265	41,597	201,862
Wealdon Leisure (FODDC)	139,063	29,523	168,586
	20,021,201	**1,668,154**	**21,689,355**
Total contributions	**93,016,734**	**18,114,106**	**** 111,130,840**

* including schools
** includes ill health and early retirement contributions totalling £2.4m.
Some of the employers will include accruals for contributions due but not received as at 31st March 2019.

Summary of Freedom of Information Requests received during 2018/19

Subject	Number of Requests
Alternative investments	9
Subject access request	3
Investments in arms companies	2
Investments in tobacco companies	2
Voting records	2
Implications of pooling on investments held	1
Investments in property	1
Pension advice given	1
Pension payments made to deceased pensioners	1
Pensioners earning in excess of £28,600, £50,000 and £100,000	1
Records system used by Pension Fund	1
Transfer values paid	1
Veterans officer	1
	26

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

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

Stage 1

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

Stage 2

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

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

The Pensions Advisory Service (TPAS)

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

Pensions Ombudsman

In cases where a complaint or dispute has not been satisfactorily resolved through the Internal Disputes Resolution Procedure, or with the help of TPAS, an application can be made to the Pensions Ombudsman within three years of the event that gave rise to the complaint or dispute or, if later, within three years of when the individual first knew about it (or ought to have known about it). There is discretion in certain instances for the time limit to be extended.

The Pensions Ombudsman's website can be found at www.pensions-ombudsman.org.uk or they can be contacted on 0800 917 4487.

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

Details of scheme member appeals during 2018/2019 are as follows:

There have been no appeals against the County Council, as Administering Authority, during 2018/19.

Pensions Administration Strategy

Introduction & Purpose

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

1. The Regulations

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

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

> **59.(1)** An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ('its pension administration strategy') and, where it does so, paragraphs (3) to (7) apply.
>
> **(2)** The matters are:
>
> **(a)** procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ('its Scheme employers');
>
> **(b)** the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by:
>
> i) the setting of performance targets
>
> ii) the making of agreements about levels of performance and associated matters, or
>
> iii) such other means as the administering authority considers appropriate
>
> **(c)** procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
>
> **(d)** procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
>
> **(e)** the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);
>
> **(f)** the publication by the administering authority of annual reports dealing with:
>
> (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
>
> (ii) such other matters arising from its pension administration strategy as it considers appropriate; and
>
> **(g)** such other matters as appear to the administering authority, after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

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

2. The Strategy

2.1 Procedures for liaison and communication with Scheme employers

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

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

2.1.3 Channels include:

- The 'Gloucestershire Pension Fund Employers Website', that gives access to:

  - information about Gloucestershire Pension Fund and the Local Government Pension Scheme

  - administration forms to download, print and use as needed

  - contact information for key Gloucestershire Pension Fund representatives who can inform and liaise with employers on the scheme and its application to individual cases

- Gloucestershire Pension Fund issues information by e-mail to the nominated contact for pensions at each organisation.

- Employer representatives can distribute pension information as appropriate to relevant staff within their organisation with a view to ensuring the smooth operation of the scheme within their organisation. The employer representative should always be mindful of the confidentiality of some correspondence.

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

2.2 Levels of performance

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

Levels of performance for Scheme employers and the administering authority

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

i. New starters (FORM: Employer pension starter notification): within 5 weeks of the employee joining.

ii. Change in member's details (FORM: LGPS con-change): within 5 weeks of the event.

iii. Early leavers (FORM: leaver1): within 5 weeks of the employee leaving.

iv. Retirement Notifications (FORM: leaver1) and all other required documents must be received by Gloucestershire Pension Fund on or before 5 working days after the last day of employment.

v. Death in active membership (FORM: leaver1): within 5 working days of the death of the member.

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

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

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

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

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

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

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

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

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

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

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

Levels of performance for Gloucestershire Pension Fund

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

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

i. providing information, interpretation and assistance on the scheme and its administration

ii. distributing regular technical information

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

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

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

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

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

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

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

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

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

2.2.19 Gloucestershire Pension Fund is responsible for exercising the discretionary powers given to it by the regulations. Gloucestershire Pension Fund is also responsible for publishing its policy to its members in respect of the key discretions as required by the regulations.

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

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

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

2.3 Payments by Scheme employers to Gloucestershire Pension Fund

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

◦ Payment Dates

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

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

◦ Late Payment

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

◦ Monthly Contribution - Payment Method

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

◦ Secondary(deficit) Contribution

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

◦ Invoice - Payment Method

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

◦ Remittance Advices

Employers must submit a remittance advice with each payment to the Gloucestershire Pension Fund (email address: peninv@gloucestershire.gov.uk). 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**

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

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

3.5 Employers are welcome to discuss any aspect of the Pension Administration Strategy with Gloucestershire Pension Fund at any time. Employers are welcome to visit Gloucestershire Pension Fund at any time, subject to notice.

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

4. Employer contribution rates and administration costs

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

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

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

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

Executive Summary on the Last Triennial Valuation

An actuarial valuation of the Fund was carried out as at 31st March 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)
Funding Level	**70.4%**	**70.1%**	**79.7%**

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 below 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
19.6%	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 121 to 126.

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

Result of interim valuation and monitoring

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 2018/19 extra contributions of £1.6m (£1.6m 2017/18) were collected from employers in connection with early retirements and £1.1m (£0.5m 2017/18) 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:

Financial assumptions	31st March 2016
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:

	Males	Females
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 but there have been strong asset returns over the three years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

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

Julie West FFA
For and on behalf of Hymans Robertson LLP
15th May 2019

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

Summary Statement to the Rates and Adjustments Certificate

In accordance with regulation 62(4) of the Regulations, the Actuary has made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1st April 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 Ending Total Contribution Rate (%/£)		
Employer/Pool	**2017/18**	**2018/19**	**2019/20**
Gloucestershire County Council and Schools Pool	%	%	%
Gloucestershire County Council*	28.9% plus £10,150,000	24.4% plus £150,000	25.4% plus £150,000
Finlay Community School	28.9	29.9	30.9
Oakwood Primary School	28.9	29.9	30.9
Berry Hill Primary School	28.9	29.9	30.9
Grange Primary School	28.9	29.9	-
Harewood Junior School	28.9	29.9	30.9
Gardners Lane Primary School	28.9	29.9	30.9
Coopers Edge Primary School	28.9	29.9	30.9
Andoversford County Primary School	28.9	29.9	30.9
BlueCoat C. of E. Primary School	28.9	29.9	30.9
British School	28.9	29.9	30.9
Carrant Brook Junior School	28.9	29.9	30.9
Glebe Infants School	28.9	29.9	30.9
Heron Primary school	28.9	29.9	30.9
Picklenash County Junior	28.9	29.9	30.9
St. Gregory's R.C. School	28.9	29.9	30.9
Swindon Village County Primary School	28.9	29.9	30.9
Tirlebrook School	28.9	29.9	30.9
Warden Hill Primary School	28.9	29.9	30.9
Cam Woodfield Junior School	28.9	-	-
Barnwood Park Arts College	28.9	29.9	30.9
Lakers School	28.9	-	-
Maidenhill School	28.9	29.9	30.9
Pittville School	28.9	29.9	30.9
Rednock School	28.9	29.9	30.9
Tewkesbury Town Council	24.8	24.8	24.8

continued...

Employer/Pool	Minimum Contributions for the Year Ending Total Contribution Rate (%/£) 2017/18	2018/19	2019/20
Town and Parish Councils Pool	%	%	%
Painswick Parish Council	24.8	24.8	24.8
Stonehouse Town Council	24.8	24.8	24.8
Lydney Town Council	24.8	24.8	24.8
Prestbury Parish Council	24.8	24.8	24.8
Cirencester Town Council	24.8	24.8	24.8
Cinderford Town Council	24.8	24.8	24.8
Dursley Town Council	24.8	24.8	24.8
Charlton Kings Parish Council	24.8	24.8	24.8
Tetbury Town Council	24.8	24.8	24.8
Cam Parish Council	24.8	24.8	24.8
Nailsworth Town Council	24.8	24.8	24.8
Coleford Town Council	24.8	24.8	24.8
Wotton-under-Edge Town Council	24.8	24.8	24.8
Lechlade Town Council	24.8	24.8	24.8
Northleach with Eastington Town Council	24.8	24.8	24.8
Brockworth Parish Council	24.8	24.8	24.8
Cainscross Parish Council	24.8	24.8	24.8
Chalford Parish Council	24.8	24.8	24.8
Rodborough Parish Council	24.8	24.8	24.8
Hucclecote Parish Council	24.8	24.8	24.8
Leonard Stanley Parish Council	24.8	24.8	24.8
Berkeley Town Council	24.8	24.8	24.8
King’s Stanley Parish Council	24.8	24.8	24.8
Leckhampton with Warden Hill Parish Council	24.8	24.8	24.8
Newent Town Council	24.8	24.8	24.8
Stroud Town Council	24.8	24.8	24.8
Moreton-in-Marsh Town Council	24.8%	24.8%	24.8%
Tidenham Parish Council	-	24.8%	24.8%
Hinton Parish Council	-	24.8%	24.8%
Bisley with Lypiatt Parish Council	-	24.8%	24.8%
Councils			
Gloucester City Council	17.5% plus £2,981,000	17.5% plus £3,232,000	17.5% plus £3,484,000
Cheltenham B.C.*	18.3% plus £10,219,000	18.3%	18.3%
Cotswold D.C.	17.9% plus £1,468,000	17.9% plus £1,663,000	17.9% plus £1,858,000
Forest of Dean D.C.*	17.9% plus £5,276,000	17.9%	17.9%
Stroud D.C.*	18.0% plus £6,497,000	18.0%	18.0%
Tewkesbury B.C.	17.5% plus £1,583,000	17.5% plus £1,775,000	17.5% plus £1,968,000

continued...

Employer/Pool	Minimum Contributions for the Year Ending Total Contribution Rate (%/£) 2017/18	2018/19	2019/20
Colleges and University	%	%	%
University of Gloucestershire	16.9% plus £1,003,000	18.5% plus £1,028,000	20.1% plus £1,053,000
Gloucestershire College	19.2% plus £603,000	19.2% plus £618,000	19.2% plus £632,000
Cirencester Tertiary College	22.3% plus £25,000	22.7% plus £51,000	23.2% plus £78,000
Hartpury University	20.4% plus £52,000	20.7% plus £106,000	20.9% plus £163,000
Scheduled Bodies			
Lower Severn Internal Drainage Board	26.3% plus £57,000	26.3% plus £57,000	26.3% plus £57,000
Police and Crime Commissioner for Gloucestershire	17.8% plus £823,000	17.8% plus £988,000	17.8% plus £1,152,000
Admitted Bodies			
Apcoa	26.4	26.4	26.4
Aspens Catering	-	30.4%	30.4%
Aspire Sports and Cultural Trust	14.9	14.9	14.9
Barnardos Forest of Dean and Stroud	26.8%	26.8%	26.8%
Barnardos Gloucester	25.8%	25.8%	25.8%
Brandon Trust	25.0%	25.0%	25.0%
Carers Gloucestershire (GCC - Parent Partnership)	28.2% plus £10,000	28.2	28.2
Cheltenham Borough Homes Ltd	18.0	18.0	18.0
Cheltenham Leisure and Culture Trust	23.7% plus £3,000	23.7% plus £3,000	23.7% plus £3,000
Civica (FODDC)	29.6	29.6	29.6
Civica (GLOS)	27.4	27.4	27.4
Cotswold Archaeological Trust Ltd.	29.8	29.8	29.8
Cotswold Conservation Board	21.1	21.6	22.0
Enterprise (AOL) Ltd	19.7	19.7	19.7
Farmor's Sports Centre Limited	36.6	36.6	36.6
Forest of Dean DC - Ubico	25.3	25.3	25.3
Gardners Lane & Oakwood	24.2	24.2	24.2
GCC Highways - Amey	28.8	28.8	-
Gloucester City Homes Trust	24.0	24.0	24.0
Gloucester City IT - Civica	26.6% plus £4,000	26.6% plus £4,000	26.6% plus £4,000
Gloucestershire Airport Ltd.	30.7% plus £352,000	30.7% plus £361,000	30.7% plus £370,000
Gloucestershire Care Services NHS Trust (ex PCT)	25.8	25.8	25.8
Gloucestershire Group Homes	32.8	32.8	32.8
Gloucestershire Rural Community Council	26.6%	26.6%	26.6%
INTO (University of Gloucester)	31.1	31.1	31.1
Kiddywinks (GCC - St Catherine's Catholic Primary After School)	20.2	20.2	20.2
Places for People	16.3%	16.3%	16.3%

continued...

Employer/Pool	Minimum Contributions for the Year Ending Total Contribution Rate (%/£) 2017/18	2018/19	2019/20
	%	%	%
Prospects Services	22.1	22.1	22.1
Publica (Cotswolds)	17.9%	17.9%	17.9%
Publica (Forest) 17.9%	17.9%	17.9%	
Ridge Crest	-	26.4%	26.4%
Sir William Romney Leisure Limited	41.4	41.4	41.4
Skanska	24.1%	24.1%	24.1%
Sport Leisure Management (SLM) Ltd	25.3% plus £1,000	25.3	25.3
Stroud Court Community Trust	31.3	31.3	31.3
Tewkesbury BC - Ubico	23.6	23.6	23.6
The Order of St. John Care Trust	31.9	31.9	31.9
Tinies UK (Glos College)	24.2	24.2	24.2
Two Rivers Housing	18.1	18.1	18.1
Ubico - Cheltenham Waste	23.1	23.1	23.1
Ubico - Cotswold Waste	22.5	22.5	22.5
Wealden Leisure (Forest of Dean DC - Leisure)	23.8	23.8	23.8
Academies			
All Saints Academy	25.6	26.7	27.8
Balcarras School	27.0	27.9	28.9
Berkeley Primary Academy	30.1%	30.1%	30.1%
Berkeley UTC Academy	22.4%	22.4%	22.4%
Bibury C of E Primary Academy	-	29.0%	29.0%
Blockley CofE Primary School	27.1	27.7	28.4
Bourton on the Water	27.2	27.2	27.2
Brockworth Primary School	23.9	24.3	24.6
CCT Learning	21.3	23.6	26.0
Charlton Kings Infant	27.5	27.5	27.5
Charlton Kings Junior	31.9	31.9	31.9
Cheltenham Bournside	30.3	31.1	31.8
Chesterton Primary Academy	-	25.9%	25.9%
Chipping Campden	28.1	28.7	29.3
Chosen Hill School	29.4	30.6	31.8
Christ Church CofE Primary (Cheltenham)	26.1	26.1	26.1
Churchdown Secondary	33.9	34.1	34.3
Churchdown Village Infants	24.6	24.6	24.6
Cirencester Deer Park	27.6	27.9	28.1
Cirencester Kingshill	24.0	25.6	27.1
Clearwater Primary Academy	-	22.4%	22.4%
Cleeve School	25.7	26.7	27.6
Coaley C of E Primary Academy	-	24.2%	24.2%
Dene Magna	33.2	33.2	33.2
Denmark Road High School	29.7	32.2	34.7
Farmors	27.4	28.8	30.2
Field Court Infant	26.9	26.9	26.9

continued...

Employer/Pool	Minimum Contributions for the Year Ended Total Contribution Rate (%/£) 2017/18	2018/19	2019/20
	%	%	%
Field Court Junior	33.3	31.7	30.1
Five Acres High School Academy	30.8%	30.8%	30.8%
Forest High School	29.7	30.2	30.8
Forest View Primary	30.9	31.6	32.3
Gloucester Academy	28.4	29.9	31.4
Gloucester Learning Alliance (Bishops Cleeve)	25.8	26.5	27.2
Gloucester Learning Alliance (Rowanfield Junior)	24.2	25.6	27.0
Gloucester Learning Alliance (Springbank)	23.5	24.7	25.8
Gotherington	37.1	38.3	39.6
Grange Primary Academy	-	29.2	29.2
Greenfield Academy	32.4	34.9	37.4
Gretton Primary	26.8	27.2	27.5
Highnam C of E	25.7	25.8	25.9
Katharine Lady Berkeleys	31.7	32.3	32.8
Kemble Primary	-	26.3%	26.3%
Marling School	26.5	27.4	28.2
Moat Primary	29.0%	29.0%	29.0%
Henley Bank High School	26.0%	26.5%	27.0%
Lakefield Primary Academy	29.2%	29.2%	29.2%
Longford Park Primary	22.3%	22.3%	22.3%
Mitton Manor Primary School	26.3	27.7	29.1
Newent Community School Academy	28.1	29.4	30.6
Offas Mead Primary	29.5	29.5	29.5
Our Co-Op Academy Trust (Beaufort)	29.6	32.1	34.6
Pate's Grammar School	27.7	27.9	28.0
Peak Academy	28.2	29.3	30.4
Redmarley C of E	30.1	30.1	30.1
Ribston Hall High	28.5	29.2	29.8
Robinswood Primary	26.1	26.1	26.1
Rowanfield Infants School	27.8%	27.8%	27.8%
Severn Vale	26.3	28.2	30.2
Severn View Primary Academy	30.7	31.2	31.7
Severnbanks Primary School	31.2	31.7	32.3
Siddington C of E Primary	-	24.2%	24.2%
Sir Thomas Rich's	30.4	31.6	32.8
Sir William Romney	30.7	30.7	30.7
South Glos. & Stroud Academy Trust Central	22.4%	22.4%	22.4%
St David's Primary School	24.2	24.7	25.3
St Dominics Catholic Primary	30.6	32.6	34.6
St. James Primary Academy	34.0%	34.0%	34.0%
St Johns CofE Coleford	28.4	28.4	28.4
St Mary's Catholic Primary	24.3	25.1	25.8
St Peters High School and Sixth Form	29.8	30.8	31.8
Staunton Corse	29.3	29.5	29.7
Stone with Woodford CofE Primary School	30.3	32.1	33.8

continued...

Employer/Pool	Minimum Contributions for the Year Ended Total Contribution Rate (%/£) 2017/18	2018/19	2019/20
	%	%	%
Stroud High School	26.9	28.4	29.9
Tewkesbury School	29.2	30.1	31.0
The Cotswold School	28.7	29.0	29.3
The Crypt School	24.7	25.3	25.9
The Dean Academy	31.3	32.7	34.2
Diocese of Gloucester Academies Trust (Central Staff)	17.8	17.8	17.8
The Diocese of Gloucester Academies (Dursley CofE)	28.4	28.9	29.4
The Diocese of Gloucester Academies (Hardwicke)	29.6	29.8	30.1
The Diocese of Gloucester Academies (Longney CofE)	32.6	32.6	32.6
The Diocese of Gloucester Academies (Minchinhampton CofE)	24.8	24.8	24.8
The Diocese of Gloucester Academies (North Cerney)	30.6	30.6	30.6
The Diocese of Gloucester Academies (Primrose Hill)	30.1	31.5	32.9
The Diocese of Gloucester Academies (Whiteshill)	29.3	29.3	29.3
The Diocese of Gloucester Academies (Winchcombe Abbey)	26.1	26.6	27.2
The Ridge School	22.4	24.1	25.7
The Rosary Catholic Primary	28.6	29.7	30.8
Thomas Keble	28.6	29.4	30.2
Tredworth Infant School	25.5	26.5	27.4
Winchcombe Secondary	31.1	31.7	32.4
Wyedean School	30.3	32.0	33.7

*These employer Secondary rates have been amended to reflect contribution pre-payments made in 2017/18 by the employers to reduce Secondary contributions that were otherwise due in years 2018/19 and 2019/20. The Secondary rates for GCC also include an additional £150k p.a. in respect of the former Prospects Services contract. Contribution rates are not adjusted for ill-health insurance take up.

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.

Governance

The Gloucestershire Local Government Pension Scheme (LGPS) Pension Board

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

The County Council, as administering authority of the Gloucestershire LGPS agreed the terms of reference of the Pension Board in February 2015. These terms of reference are included within the Fund's Governance Policy document on pages 52 to 61 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)
Annette Benson (University of Gloucestershire)

Scheme member representatives

Owen Shaw
Jon Topping

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

There were two meetings of the Board in relation to the 2018/19 financial year. These meetings were attended by the vast majority of the Board members, with only one apology being received for one of the meetings.

In addition to attendance at Board Meetings, members of the Pension Board are invited to attend joint training and update sessions with members of the Pension Committee. During 2018/19 a member from the Pension Board attended at each of the following training events:

Regional engagement event on the Brunel Pension Partnership

In house training event on Investment Risks and Rewards

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

In relation to the financial year 2018/19 the Board have focused on the following key areas:

- The continued development of the Governments requirement for LGPS Funds to combine their investments in pools of at least £25 billion via one FCA regulated company.
- The Risk Register. The Board reviewed the risk register at each meeting and made one recommendation for an amendment to the register, which was subsequently actioned.
- Pension Administration Arrangements. The Board considered a detailed performance report on the administration arrangements.
- The Annual Business Plan and Annual Report of the Pension Fund.
- Other areas considered by the Board in relation to 2018/19 included the draft guidance on LGPS asset pooling released by the Department for Communities and Local Government, with the Board receiving assurance that the Brunel Pension Partnership, which the Gloucestershire Fund has joined, already meets all of the substantive requirements included within the guidance.

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 46 to 51 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 11th May 2018, 7th September 2018, 9th November 2018 and 8th February 2019.

Member	Voting Rights	Meetings Attended	Training Received Number of Days	
			From 2016/17 to 2018/19	During 2018/19
Cllr. R. Theodoulou	Yes	5	9	4
Cllr. D. Brown	Yes	4	2	1
Cllr. N. Cooper	Yes	3	4	1
Cllr. C. Hay	Yes	4	5	4
Cllr. B. Oosthuysen*	Yes	1	5	3
Cllr. S. Parsons	Yes	3	4	1
Cllr. R. Smith**	Yes	1	-	-
Cllr. L. Stowe	Yes	3	3	2
P. Clark* (Scheme Member Rep.)	No	5	6	3

* Cllr. Oosthuysen left the Committee in November 2018
** Cllr. Smith joined the Committee in November 2018

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 July 2017. The statement details the areas where these best practice principles apply, for example, covering committee structure and representation, arrangements for training, etc. The Governance Compliance Statement then indicates whether the Fund is fully compliant in all these areas and refers to the relevant policy documents such as the Governance Policy Statement (on page 52) 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
A) Structure	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) Representation	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
C) Selection and Role of Lay Members	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	
D) Voting	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	
E) Training/ Facility Time/ Expenses	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	
F) Meetings - Frequency	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 an 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
G) Access	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	
H) Scope	a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	FULL - see Governance Policy Statement	
I) Publicity	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 49 to 51.

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 47 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:

“Pension Board” or “Board”	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
“Scheme Manager”	Means Gloucestershire County Council as Administering Authority of the Gloucestershire Local Government (LGPS) Pension Fund
“LGPS”	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
“Scheme”	Means the Local Government Pension Scheme as defined under “LGPS”

Fund Account and Net Assets Statement

> Statement of Accounts 2018/19

Statement of Responsibilities and Foreword to Accounts

The audited accounts and notes following on pages 55 to 88, 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.

Paul Blacker, CPFA

Acting Strategic Finance Director
(and Section 151 Officer)
26th July 2019

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

Opinion

We have audited the financial statements of Gloucestershire Pension Fund (the 'pension fund') administered by Gloucestershire County Council (the 'Authority') for the year ended 31st March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31st March 2019 and of the amount and disposition at that date of the fund's assets and liabilities
- have been prepared properly in accordance with the CIPFA/ LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Strategic Finance Director and Those Charged with Governance for the financial statements

As explained more fully in the Statement of 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. In this authority, that officer is the Strategic Finance Director. The Strategic Finance Director is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Finance Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

Peter Barber, Key Audit Partner

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

29th July 2019

Fund Account for the year ended 31st March 2019

2017/18 £000		2018/19 £000	2018/19 £000	Note
	Contributions			
-112,820	employer contributions	**-93,016**		*N20*
-17,795	members' contributions	**-18,114**		*N20*
-130,615			**-111,130**	*N7*
	Transfers in from other pension funds			
-6,733	individual transfers from other schemes or funds	**-6,736**		
-	group transfers from other schemes or funds	**-**		
-6,733			**-6,736**	
	Other income			
-143	recoveries for services provided		**-132**	*N22*
	Benefits			
65,927	pensions	**69,453**		*N32*
11,090	commutation of pensions and lump sum retirement benefits	**12,203**		
1,153	lump sum death benefits	**1,804**		
78,170			**83,460**	*N7*
	Payments to and on account of leavers			
239	refunds to members leaving scheme or fund	**336**		
58	payments for members joining state scheme or fund	**36**		
5,974	individual transfers to other schemes or funds	**4,992**		
-	group transfers to other schemes or funds	**-**		
6,271			**5,364**	
-53,050	**Net (addition)/withdrawal from dealings with members**		**-29,174**	
7,418	**Management expenses**		**8,442**	*N22*
	Returns on investments			
-30,856	investment income	**-27,684**		*N15*
7	taxes on income	**3**		*N3 & N15*
-74,344	Profit(-) and losses on disposal of investments and changes in market value of investments	**-90,864**		*N4*
-105,193	**Net returns on investments**		**-118,545**	
-150,825	**Net increase (-) / decrease in the net assets available for benefits during the year**		**-139,277**	
2,088,616	**Opening net assets of the scheme**		**2,239,441**	
2,239,441	**Closing net assets of the scheme**		**2,378,718**	

Net Asset Statement as at 31st March 2019

2017/18 re-stated £000		2018/19 £000	Note
	Investment assets		
288,855	Bonds	**323,927**	
380,754	Equities	**-**	
1,331,728	Pooled investment vehicles	**1,829,558**	*N10 & N34a*
176,138	Property unit trusts	**192,478**	*N10 & N34a*
710	Derivative contracts	**1,297**	*N2 & N17*
5,624	Other investments - Venture Capital/Private Equity	**4,972**	*N10*
23,118	Cash held on behalf of the investment managers	**11,753**	*N27*
5,871	Other investment balances	**4,450**	
2,212,798		**2,368,435**	*N14*
	Long term investment assets		
840	Brunel Pension Partnership	**395**	*N9*
840		**395**	
	Investment liabilities		
-320	Derivative contracts	**-1,429**	*N2 & N17*
-552	Other investment balances	**-1,412**	
-872		**-2,841**	*N14*
2,212,766	**Total Net Investments**	**2,365,989**	
	Long term assets		
282	Contributions due from employers	**440**	
1,236	Other long term assets (debtors)	**618**	
1,518		**1,058**	*N14 & N24*
	Current assets		
4,121	Contributions due from employers	**4,708**	
539	Other current assets	**410**	
618	Money due re. transfer of staff to another pension scheme	**618**	
156	Payments in advance	**256**	
21,748	Cash balances	**8,006**	*N2, N23 & N27*
27,182		**13,998**	*N14 & N24*
	Current liabilities		
-16	Unpaid benefits	**-26**	
-2,009	Other current liabilities	**-2,301**	
-2,025		**-2,327**	*N14 & N25*
2,239,441	**Net assets of the scheme available to fund benefits at the period end**	**2,378,718**	*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 2018/19

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 23 to 25.

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

- The LGPS Regulations 2013 (as amended)

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

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

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

Membership Breakdown

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Pension Fund include the following:

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

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

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

Membership details are set out below:

	31st March 2018	31st March 2019
Number of employers	201	**205**
Number of employees in the scheme		
County Council	10,079	**10,241**
Other employers	8,751	**8,728**
	18,830	**18,969**
Number of pensioners		
County Council	9,077	**9,476**
Other employers	6,276	**6,582**
	15,353	**16,058**
Deferred pensioners		
County Council	11,555	**11,996**
Other employers	7,908	**8,421**
	19,463	**20,417**
Total number of members in pension scheme	53,646	**55,444**

In addition there were 4,690 (6,122 2017/18) undecided or unprocessed leavers.

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

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

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2019. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31st March 2016. Currently, employer contribution rates range from 14.9% to 40.9% of pensionable pay.

Benefits

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

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

N2 Summary of significant accounting policies

Basis of Preparation

The Statement of Accounts summarises the Funds' transactions for the 2018/19 financial year and its position at year end as at 31st March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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 N26 of these accounts. The accounts are prepared on a going concern basis.

Critical judgements in applying accounting policies

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

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

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

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

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

The items within the Net Asset Statement as at 31st March 2019, for which there is a risk of material adjustment in the forthcoming year, are highlighted overleaf:

Contribution Income

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

Management Expenses

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

Items within the Net Asset Statement as at 31st March 2019, for which there is a risk of material adjustment in the forthcoming year

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note N26)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	The effects on the net pension liability of changes in the individual assumptions can be measured as follows: - A 0.5% decrease in the real discount rate would increase the liability by £360m - A 0.5% increase in the pension increase rate would increase the liability by £289m - A 0.5% increase in the salary increase rate would increase the liability by £50m
Private Equity, Infrastructure and Private Debt	Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total value of Private equity, Infrastructure and Private Debt investments in the financial statements as at 31st March 2019 are £49.646m. There is a risk that these investments may be under or overstated in the accounts, see Note N28.

Investment Management Expenses

Investment Management Expenses comprise of expenses which are incurred in relation to the management of pension fund assets. Where an investment manager's fee has not been received by the reporting period end date, an estimate based upon the market value of the mandate at the end of the reporting period has been used. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note N22 and grossed up to increase the change in value of investments.

Hermes deducts its fees from a combination of assets held and income distributions and is included within Investment Management Expenses. Technology Venture Partners (TVP) and Yorkshire Fund Managers (YFM) deduct their fees from the value of the assets under their management. Fees for TVP and YFM have not been included as they are the legal responsibility of the managers and not the Fund. Brunel Pension Partnership (BPP) passive global equity pooled funds encash units to cover their fees and these have been included within Investment Management Expenses. Fees incurred in relation to BPP's ACS fund have also been included within Investment Management Expenses.

Acquisition and Transaction Costs of Investments

Acquisition costs of investments (e.g. stamp duty) and transaction costs are included within Investment Management Expenses with a corresponding offset against Profit on Disposal of Investments. In addition to the transaction costs disclosed, indirect costs are incurred through the bid/offer spread on investments within pooled investment vehicles. The amounts of indirect costs are not separately provided to the Fund. A more detailed breakdown of management expenses, including transaction costs, can be found in Note N22.

Administration Expenses

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

Oversight & Governance Expenses

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

Investment Income

Dividends 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 and Cash Equivalents

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

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

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

The Actuarial Present Value of Promised Retirement Benefits

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

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

Contingent assets and contingent liabilities

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

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

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

Valuation of Assets

The SORP requires securities to be valued on a Fair Value Basis therefore assets and liabilities, where there is an active and readily available market price, are valued at the bid price. Where assets do not actively trade through established exchange mechanisms a price is obtained from the manager of the investment asset through their quarterly reports. Further details of their approach to establishing fair value can be found within Note N28, Basis of Valuation table. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates prevailing as at 31st March 2019. Purchases and sales during the year which require settlement in a foreign currency are converted from/to sterling at the exchange rate prevailing on the trade date. Fixed interest securities are recorded at market value based on their yields. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is re-invested in the fund, net of applicable withholding tax. Property within the property unit trusts are independently valued mainly in accordance with the Royal Institute of Chartered Surveyors valuation standards. Private Equity is valued using the latest financial statements published by the respective fund managers and in accordance with the International Private Equity and Venture Capital Guidelines. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for movements to the year end.

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

The values of investment as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association).

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

The accounts for the year ended 31st March 2019 use the valuations for the Fund's assets based on the figures provided by the Fund's custodian, State Street.

Derivatives

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

N3 Taxation

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

N4 Investment Movements Summary

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

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

2017/18 re-stated Asset Class	Market value at 31st March 2017 £000	Purchases during the year at cost and derivative payments £000	Sales proceeds during the year and derivative receipts £000	Change in market value during the year £000	Market value at 31st March 2018 £000
Bonds	280,713	60,935	-48,324	-4,469	**288,855**
Equities	377,449	120,081	-101,335	-15,441	**380,754**
Pooled Investments*	1,252,164	78,306	-74,061	75,319	**1,331,728**
Property Unit Trusts*	134,719	34,475	-463	7,407	**176,138**
Private Equity	5,328	116	-	180	**5,624**
	2,050,373	293,913	-224,183	62,996	**2,183,099**
Derivative contracts:					
Futures	220	332	-153	-196	**203**
Forward currency contracts	216	-	-	-29	**187**
	436	332	-153	-225	**390**
Long term investment assets					
Brunel Pension Partnership	-	840	-	-	**840**
	-	840	-	-	**840**
Net investment assets	2,050,809	295,085	-224,336	62,771	**2,184,329**

In addition to the investments there was £55,112k (£37,807k 2016/17) in cash, cash equivalents and accruals. Cash movements, currency adjustments and other end of year settlements totalled £11,573k (-£2,205k 2016/17). As a result the total profit (-) and losses on disposal of investments and changes in market value of investments was -£74.3m (-£334.8m 2016/17).

*After further investigation by the investment manager in 2018/19 the asset classification of investments with a net value of £2,245k were moved within the pooled funds and property unit trust asset classifications. The 2017/18 comparable figures have been amended to reflect that change; please see note N34 (a) for details.

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:

	2017/18		2018/19	
	£000	%	£000	%
Investments managed by the Brunel Pension Partnership regional asset pool				
Legal & General Investment Management	-	-	**521,215**	**21.9**
Brunel ACS UK Equity Fund	-	-	**365,801**	**15.4**
Brunel Private Equity and Infrastructure Portfolio	-	-	**2,329**	**0.01**
	-	-	**889,345**	**37.4**
Investments managed outside of the Brunel Pension Partnership regional asset pool				
BlackRock	1,038,727	46.4	**619,296**	**26.0**
Bluebay Asset Management	6,166	0.3	**22,252**	**0.9**
CBRE	54,631	2.4	**61,678**	**2.6**
Golub Capital Partners International	10,693	0.5	**20,145**	**0.9**
Hermes Investment Management Property Unit Trust	131,618	5.9	**140,675**	**5.9**
Aberdeen Standard Investments (formerly Standard Life)	471,680	21.1	**79,360**	**3.3**
Technology Venture Partners	3,635	0.1	**3,629**	**0.2**
Western Asset Management Company	492,635	22.0	**527,664**	**22.2**
Yorkshire Fund Managers (YFM)	1,989	0.1	**1,342**	**0.1**
	2,211,774	98.8	**1,476,041**	**62.1**
Total - External Managers	2,211,774	98.8	**2,365,386**	**99.5**
In-house cash and accruals	26,676	1.2	**12,730**	**0.5**
Cash instruments with Custodian	151	0.0	**207**	**0.0**
Brunel Pension Partnership (Shareholding)	840	0.0	**395**	**0.0**
	2,239,441	100.0	**2,378,718**	**100.0**

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

N6 Actuarial Position of the Fund

- In line with the Local Government Pension Scheme Regulations, actuarial valuations of the Fund are required to be undertaken every three years, for the purpose of setting employer contribution rates for the forthcoming triennial period. The latest valuation took place as at 31st March 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.

- The contribution rate has been calculated using the projected evolution of each employers' section of the Fund and the main actuarial assumptions used are as follows:

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

* 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**

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

N7 Analysis of Contributions Receivable and Benefits Payable

	2017/18		**2018/19**	
	Contributions receivable £000	Benefits payable £000	**Contributions receivable £000**	**Benefits payable £000**
Gloucestershire County Council (Administering Authority)	54,853	41,302	****42,619**	**44,342**
Scheduled Bodies (162 18/19) (157 17/18)* (Bodies admitted by right)	66,742	32,048	****46,784**	**33,487**
Admitted Bodies (42 18/19) (43 17/18)* (Bodies admitted by agreement)	9,020	4,820	*****21,727**	**5,631**
	130,615	78,170	**111,130**	**83,460**

Scheduled Bodies now include 96 (91 17/18) schools who have converted to academy status.

* These numbers relate to active employers with active members.

**During 2017/18, Gloucestershire County Council and three scheduled bodies made the decision to pay lump sum deficit contributions to the Fund to benefit from earning greater investment returns in the short term resulting in reduced contribution payments owing in future years.

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

N8 Investment Strategy Statement

The Fund's Investment Strategy Statement (ISS) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 can be found on pages ??? to ????. It includes a statement on the Fund's approach to pooling its investment assets as required under the Regulations.

N9 Related Party Transactions

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

	2017/18 £000	**2018/19 £000**
Administrative expenses	1,743	**2,128**

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 and Acting Director: Strategic Finance's remuneration costs were recharged to the Fund to reflect time spent supporting the Fund. These consisted of salary, fees and allowances of £10,820 (£11,030 2017/18) and employers' pension contributions of £3,235 (£3,188 2017/18).

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

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

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

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

Five members of the Pension Committee were also District Council members as at 31st March 2019 and these are detailed below:

Member	**District Council**
Cllr. D. Brown	Gloucester City Council
Cllr. N. Cooper	Stroud District Council
Cllr. S. Parsons	Cotswold District Council
Cllr. L. Stowe	Cotswold District Council
Cllr. R. Theodoulou	Cotswold District Council

In addition to the roles outlined above, Cllr. R. Theodoulou sits on the Board of UBICO Limited and Brunel Pension Partnership (BPP Ltd). Cllr. N. Cooper is a governor of Archway School. Ubico Limited and Archway School are employers in the Fund.

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

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

Brunel Pension Partnership Ltd (Company Number 10429110)

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

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

	2017/18 £000	**2018/19 £000**
Income	-	**-**
Expenditure	-	**-**
Debtors	283	**-**
Creditors	-	**256**
	283	**256**

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

N9a Key Management Personnel

The key management personnel of the Fund are the Section 151 Officer and the Head of Pensions 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, 0.9 full time equivalent (F.T.E.), (1.3 F.T.E. 2016/17) is set out below.

	2017/18 £000	**2018/19 £000**
Short-term benefits	80	**72**
Post-employment benefits	44	**36**
Other long-term benefits	-	**-**
Termination benefits	-	**-**
Share-based payments	-	**-**
	124	**108**

N10 Contingent Liabilities and Contractual Commitments

The Fund has investment commitments with four managers where the investment manager has not yet drawn down all monies due. These commitments relate to investments in private debt, property funds and private equity and infrastructure and are requested as and when the respective investment manager identifies an investment opportunity. The amounts requested can therefore be irregular in both size and timing. It is estimated that the private debt funds will have drawn down 80-85% of their total commitment by the end of 2020 and may then start returning funds as investments mature rather than draw down the entire commitment. Brunel has indicated that funds may be fully drawn down by 2023 and CBRE anticipates that funds may be fully drawn down in the next financial year.

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

Fourteen admitted body employers in the Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the eventof employer default. No such defaults have occurred in 2018/19 (2017/18 nil).

N11 Contingent Assets

Due to retrospective adjustments to how pension payments are made for Registration staff working additional hours or on a fee basis, a contingent asset of £38,504 (16/17 £38,504) has been recorded for possible additional contributions from ex members of staff, during 2018/2019 and future years.

	Total Commitment £000	Outstanding liability 2017/18 £000	**Outstanding liability 2018/19 £000**
Bluebay Asset Management LLP (private debt)	50,000	43,869	**27,730**
Chandos Fund (private equity)	3,000	36	**-**
CBRE (property)	41,000	4,381	**1,531**
Golub Capital Partners International (private debt)	40,000	28,396	**19,625**
Brunel Pension Partnership (private equity & infrastructure))	86,000	-	**83,681**
	220,000	76,682	**132,567**

N12 Unquoted Holdings

The following holdings are unquoted:

Pooled investment vehicles	2017/18 £000	2017/18 £000 re-stated	**2018/19 £000**
UK equity unit trust	-	-	**365,801**
UK equity unitised insurance policy	-	-	**13,245**
Overseas equity unitised insurance policy	600,996	600,996	**681,244**
Global equity unitised insurance policy	294,827	294,827	**303,244**
Global multi asset unitised insurance policy	77,877	77,877	**78,167**
UK property managed fund*	3,710	7,289	**8,174**
Overseas fixed interest managed fund	184,099	184,099	**183,405**
UK property limited liability partnership*	1,809	475	**476**
UK private debt limited liability partnership	6,166	6,166	**22,252**
Overseas private debt limited liability partnership	10,693	10,693	**20,145**
UK Infrastructure limited liability partnership	-	-	**1,797**
Overseas fixed interest limited liability partnerships	5,248	5,248	**-**
Overseas private equity limited liability partnership	-	-	**480**
	1,185,425	1,187,670	**1,678,430**
Property unit trusts			
UK property unit trust*	30,632	34,591	**38,196**
Overseas property unit trust*	16,134	9,930	**13,608**
	46,766	44,521	**51,804**
Total	1,232,191	1,232,191	**1,730,234**

*Investments managed by one of the property managers have been re-assessed and their asset classification changed. The 2017/18 comparable figures have been amended to reflect that change. See Note N34 (a) for more details.

N13 Stocklending

The Pension Funds' custodian has been authorised to release stock to third parties under a stock lending arrangement. At 31st March 2019 the value of stock out on loan was £1.6m which was in UK Government stock, (In 17/18 the value out on loan was £41.6m of which £32.9m was in UK Equities and £8.7m in UK Government stock). Collateral of £1.7m (£44.2m) equal to 106.4% (106.2%) of stock out on loan was held in the form of UK equities.

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

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

N14 Financial Asset Analysis

Financial assets			2017/18 £000	2017/18 re-stated £000	2018/19 £000	Note
Bonds						
UK	- Public Sector	– Quoted	137,004	137,004	**46,521**	
	- Corporate	– Quoted	121,319	121,319	**256,694**	
Overseas	- Public Sector	– Quoted	23,887	23,887	**1,741**	
	- Corporate	– Quoted	6,645	6,645	**18,971**	
			288,855	288,855	**323,927**	
Equities						
UK		– Quoted	380,754	380,754	**-**	
Pooled investment vehicles						
Unit Trusts						
UK	- Equities	– Unquoted	-	-	**365,801**	
Overseas	- Equities	– Quoted	142,866	142,866	**142,740**	
Unitised Insurance Policies						
UK	- Equities	– Unquoted	-	-	**13,245**	
Overseas	- Equities	– Unquoted*	600,996	600,996	**681,244**	
Global	- Equities	– Unquoted*	294,827	294,827	**303,244**	
Global	- Multi Asset	– Unquoted*	77,877	77,877	**78,167**	
Other Managed Funds						
O.E.I.C.'s	- Overseas Fixed Interest	– Quoted*	1,192	1,192	**8,388**	
	- Overseas Fixed Interest	– Unquoted*	184,099	184,099	**183,405**	
	- UK - Property	– Unquoted	3,710	7,289	**8,174**	*N34a*
Limited Liability Partnerships						
	- UK – Private Debt	– Unquoted	6,166	6,166	**22,252**	*N10*
	- Overseas – Private Debt	– Unquoted	10,693	10,693	**20,145**	*N10*
	- UK - Property	– Unquoted	1,809	475	**476**	*N34a*
	- UK - Infrastructure	– Unquoted	-	-	**1,797**	
	- Overseas - Private Equity	– Unquoted*	-	-	**480**	
	- Overseas Fixed Interest	– Unquoted	5,248	5,248	**-**	
			1,329,483	1,331,728	**1,829,558**	
Property Unit Trusts						
UK		– Quoted	131,617	131,617	**140,674**	
		– Unquoted	30,632	34,591	**38,196**	*N34a*
Overseas		– Unquoted	16,134	9,930	**13,608**	*N34a*
			178,383	176,138	**192,478**	*N10*
Derivative Contracts						
Futures	- UK		299	299	**-**	
	- Overseas		-	-	**773**	
Forward Foreign Exchange Contracts			411	411	**524**	
			710	710	**1,297**	*N17*
Other Investments						
Venture Capital/Private Equity - UK			5,624	5,624	**4,972**	*N10*
Cash (Managers)						
Cash instruments	- UK		20,149	20,149	**7,043**	
	- Overseas		1,915	1,915	**2,142**	
Cash Deposits	- UK		716	716	**1,334**	
	- Overseas		338	338	**1,234**	
			23,118	23,118	**11,753**	
Other Investment Balances						
Debtors						
Outstanding settlement of investment transactions			502	502	**-**	
Accrued dividend income and tax reclaims due on dividend income			5,369	5,369	**4,450**	
			5,871	5,871	**4,450**	
Long Term Financial Assets						
Brunel Pension Partnership			840	840	**395**	*N9*
Total Financial Assets			2,213,638	2,213,638	**2,368,830**	

Financial Liabilities	2017/18 £000	2017/18 re-stated £000	2018/19 £000	Note
Derivative Contracts				
Futures – UK	-	-	**-70**	
Futures – Overseas	-96	-96	**-1,245**	
Forward Foreign Exchange Contracts	-224	-224	**-114**	
	-320	-320	**-1,429**	*N17*
Other Investment Balances				
Creditors				
Outstanding settlement of investment transactions	-552	-552	**-1,412**	
Total Financial Liabilities	-872	-872	**-2,841**	
Long Term Assets				
Contributions due from employers	282	282	**440**	
Money due re. transfer of staff to another pension scheme	1,236	1,236	**618**	
	1,518	1,518	**1,058**	*N24*
Current Assets				
Contributions due from employers	4,121	4,121	**4,708**	
Other current assets (debtors)	539	539	**410**	
Money due re. transfer of staff to another pension scheme	618	618	**618**	
Payments in advance	156	156	**256**	
Cash balances	21,748	21,748	**8,006**	*N23*
	27,182	27,182	**13,998**	*N24*
Current Liabilities				
Unpaid benefits	-16	-16	**-26**	
Other liabilities (creditors)	-2,009	-2,009	**-2,301**	
	-2,025	-2,025	**-2,327**	*N25*
	2,239,441	2,239,441	**2,378,718**	

* These overseas pooled funds may incorporate some UK assets.

N15 Investment Income

Investment income arises from the following investment categories: >

	2017/18 £000	2018/19 £000
Bonds	9,305	**9,293**
Equities	14,038	**9,957**
Pooled investment vehicles	6,920	**9,658**
Interest on cash deposits	121	**99**
Private equity*	393	**-1,401**
Other income from stocklending, underwriting and class actions	79	**78**
	30,856	**27,684**
Withholding tax	-7	**-3**
	30,849	**27,681**

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

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

N16 Separately Invested Additional Voluntary Contributions (AVC's)

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

Value of separately invested additional voluntary contributions

	31st March 2018 £000	**31st March 2019 £000**
The Prudential Assurance Company Limited	7,005	**6,880**
Phoenix Life Limited	20	**18**
	7,025	**6,898**

AVC contributions of £647k were paid directly to Prudential during the year (£763k 17/18) and included additional death in service premiums totalling £4k (£5k 17/18). 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 for duration management purposes. Additionally, the investment strategy for this manager, for the majority of overseas currency exposures, is to be fully hedged back to Sterling which is achieved by the use of foreign exchange forward contracts. To mitigate large unrealised profits or losses accruing with any one counterparty the contracts are split between a handful of banks and the contracts rolled quarterly in order that gains or losses are realised at regular intervals.

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

Derivative Contract Analysis

	Contract type*	2017/18 Notional Value £000	2018/19 Notional Value £000	Expiration	2017/18 Market Value £000	2018/19 Market Value £000
Investment Assets						
Futures						
UK - Fixed Interest						
UK Long Gilt Future	ET	15,967	**-**	Less than 3 months	299	**-**
UK Futures		15,967	**-**		299	**-**
Overseas - Fixed Interest						
US Treasury Long Bond Future	ET	-	**1,723**	Less than 3 months	-	**47**
US 5yr Note Future	ET	-	**68,801**	Less than 3 months	-	**726**
		-	**70,524**		-	**773**
Total Futures		15,967	**70,524**		299	**773**
Forward foreign exchange contracts	OTC	21,237	**42,329**	Less than 3 months	411	**524**
Total Derivative Assets		37,204	**112,853**		710	**1,297**
Investment Liabilities						
Futures						
UK - Fixed Interest						
UK Long Gilt Future	ET	-	**-4,528**	Less than 3 months	-	**-70**
UK Futures		-	**-4,528**		-	**-70**
Overseas - Fixed Interest						
German Euro Bund Future	ET	-1,677	**-36,838**	Less than 3 months	-25	**-795**
US 10yr Note Future	ET	-	**-13,155**	Less than 3 months	-	**-223**
US Treasury Bond Future	ET	-2,288	**-6,446**	Less than 3 months	-71	**-227**
Overseas Futures		-3,965	**-56,439**		-96	**-1,245**
Total Futures		-3,965	**-60,967**		-96	**-1,315**
Forward foreign exchange contracts	OTC	26,452	**15,407**	Less than 3 months	-224	**-114**
Total Derivative Liabilities		22,487	**-45,560**		-320	**-1,429**
Net Futures					390	**-132**

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

A breakdown of the open forward foreign exchange contracts at 31st March 2019 is given below:-

Open Forward Currency Contracts at 31st March 2019

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to six months	GBP	20,419	EUR	23,158	435	
Up to six months	GBP	6,707	USD	8,728	23	
Up to six months	GBP	4,190	EUR	4,823	21	
Up to six months	GBP	5,375	USD	6,994	19	
Up to six months	GBP	3,127	USD	4,070	10	
Up to three months	USD	2,200	GBP	1,676	9	
Up to three months	USD	950	GBP	721	7	
Up to six months	GBP	114	NZD	218	-	
Up to six months	GBP	5,735	USD	7,573		-52
Up to six months	EUR	1,458	GBP	1,288		-30
Up to six months	USD	4,235	GBP	3,253		-9
Up to six months	GBP	1,333	AUD	2,465		-7
Up to six months	GBP	657	HKD	6,792		-6
Up to six months	GBP	440	JPY	63,944		-4
Up to three months	GBP	199	EUR	233		-2
Up to three months	GBP	1,147	USD	1,500		-2
Up to three months	GBP	191	EUR	222		-1
Up to three months	GBP	1,033	USD	1,350		-1
Up to six months	GBP	131	SGD	232		-
Open forward currency contracts at 31st March 2019					524	-114
Net forward currency contracts at 31st March 2019						**410**
Prior year comparative						
Open forward currency contracts at 31st March 2018					411	-224
Net forward currency contracts at 31st March 2018						187

N18 Investments Exceeding 5% of Total Net Assets

At 31st March 2019 the Pension Fund held eight, (2017/18, five) investments that each exceeded 5% of the total value of the net assets of the scheme. These eight investments totalled £1,704,544k out of a total market value for the Fund of £2,378,718k.These are detailed as follows:

Investments exceeding 5% of Total Net Assets	2017/18 £000	2017/18 %	**2018/19 £000**	**2018/19 %**
BlackRock Global Equity Fund	600,996	26.8	**476,518**	**20.3**
Brunel ACS UK Equity Fund	-	-	**365,801**	**15.4**
Legg Mason Global Funds - WA GMS	184,098	8.2	**183,405**	**7.7**
Legal & General Multi Factor North America Fund	-	-	**142,913**	**6.0**
BlackRock Emerging Markets Index Fund	142,866	6.4	**142,740**	**6.0**
Hermes Property Unit Trust	131,617	5.9	**140,674**	**5.9**
Legal & General Developed World Equity Index Fund	-	-	**127,496**	**5.3**
Legal & General Developed World Equity Hedged Currency Index Fund	-	-	**124,997**	**5.2**
BlackRock Aquila Life MSCI Developed World (hedged)	187,939	8.4	**-**	**-**
	1,247,516	55.7	**1,704,544**	**71.8**

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 Brunel ACS UK Equity Fund is a Unit Trust.

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

Hermes Property Unit Trust is a Property Unit Trust.

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

N19 Agency Services

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

	2017/18 £000	2018/19 £000
Discretionary Payments	1,083	**1,100**

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

* During 2017/18 four employers paid lump sum deficit contributions totalling £27.223m to the Fund in Year 1 of the valuation period relating to 2018/19 and 2019/20. These early payments benefitted from earning greater investment returns in the short term resulting in reduced contribution payments owing in future years.

Contributions Breakdown	2017/18 £000	2018/19 £000
From Employers:		
Normal	52,623	**54,499**
Augmentation	-	**-**
Deficit Funding*	58,112	**22,349**
Section 75 debt (cessation of employer)	-150	**13,447**
Other	2,226	**2,721**
	112,820	**93,016**
From Members:		
Normal	17,400	**17,869**
Additional Voluntary	395	**245**
	17,795	**18,114**

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

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

These payments follow the principles outlined in the Funding Strategy Statement. Early retirement costs are usually paid in one lump sum or were historically paid over several years dependent on the status of the employer. When a payment is spread there is an extra cost to reflect the delay in total payment. There are currently no early retirement costs being spread and at 31st March 2019 there were no accrued early retirements due to the Fund (2017/18 £0.1m).

Excess ill health retirement costs are invoiced for as they arise and funding level payments are made by an employer voluntarily. At 31st March 2019 £505k (2017/18 £0) was due to the Pension fund for ill health retirement costs which have been accrued; £235k of which (2017/18 £0) is being spread over two years.

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 2019 use the valuations for the Fund's assets provided by our custodian, State Street Global Services. This reflects the position of the custodian who is ultimately the master book of record. 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 State Street Global Services on behalf of the Pension Fund, are ring-fenced from the assets of the Bank and segregated within its books as belonging to Gloucestershire Pension Fund.

N22 Management Expenses

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

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

The increased investment management expenses during the period relates in part to the operational activities of the Brunel Pension Partnership (BPP) asset pool of which Gloucestershire pension fund is an equal shareholder. The remaining increase in expenses is as a result of the increase in value of assets under management during the period.

The increase in Administration Expenses is largely due to an increase in staff costs and overhead recharges. The increase in Oversight & Governance is mainly due to an increase in actuarial fees in the pre triennial valuation period and an increase in performance monitoring costs.

Within Oversight and Governance costs there were actuarial expenses of £126,358 (£130,410 2017/18) generated by specific employer requirements, these were then charged back to the employer. The corresponding income is included within Recoveries for Services Provided in the Fund Account.

In addition to the recharged actuarial expenses, recoveries for services provided includes £5,328 for pension reimbursements.

The management fees disclosed overleaf 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.

Management expenses	2017/18 £000	2018/19 £000
Investment management expenses *	5,783	**6,492**
Administration expenses	1,217	**1,397**
Oversight & governance	418	**553**
	7,418	**8,442**

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

Investment management expenses	2017/18 £000	2018/19 £000
Fund value based management fees		
- invoiced	3,723	**4,798**
- deducted from investment	863	**544**
	486	**5,342**
Performance fee		
- invoiced	-	**-**
- deducted from investment	432	**544**
	432	**544**
	5,018	**5,886**
Transaction costs		
- equities	649	**233**
- derivatives	2	**27**
- bonds	-	**1**
- pooled funds	5	**167**
	656	**428**
Custody costs	101	**176**
Tax and legal costs	8	**2**
	5,783	**6,492**

Audit fees

Audit fees of £18,325, (£23,799 in 2017/18) were incurred in relation to Grant Thornton UK LLP, the auditors appointed by the Public Sector Audit Appointments Ltd. for external audit services.

Transaction costs

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

Transaction costs of £427,453 (£656,256 2017/18) were included within the purchase cost/ proceeds of investment at the point of purchase or sale but for transparency purposes have been added to Investment Management Expenses with a corresponding offset against Profit on Disposal of Investments as recommended by CIPFA.

Transaction costs decreased in 2018/19 largely due to a re-organisation of investment managers which resulted in a large number of directly held equities being sold part way through the year and the money used to purchase pooled funds.

N23 Cash

From the 1st April 2010 the Pension Fund has had its own bank account. At 31st March 2019 cash of £8.0m (£21.7m in 2017/18) was invested through the County Council's short-term investment procedures. During the year the average investment balance was £12.3m (£11.4m 2017/18) earning interest of £65.6k (£25.5k 2017/18).

N24 Current & Long Term Assets

Current Assets	2017/18 £000	20178/19 £000
Contributions due - Employees	743	**816**
Contributions due - Employers	3,378	**3,892**
Sundry debtors	539	**410**
Payment in advance	156	**256**
Money due re. transfer of staff to another pension scheme	618	**618**
	5,434	**5,992**
Cash balances	21,748	**8,006**
	27,182	**13,998**
Long term assets		
Long term debtors	1,518	**1,058**

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 £7,200 is due to the Pension Fund within the next twelve months.

N25 Current Liabilities

	2017/18 £000	2018/19 £000
Benefits payable	-16	**-26**
Sundry creditors	-2,009	**-2,301**
	-2,025	**-2,327**

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 2018 £m	**31st March 2019 £m**
Present Value of Promised Retirement Benefits	3,082	**3,472**

Net Assets Available for Benefits

Year ended	31st March 2018 £m	**31st March 2019 £m**
Net Assets	2,239	**2,379**

The assumptions used are suitable for IAS19 purposes as required by the Code of Practice; these differ from those used at the 31st March 2018. It is estimated that the impact of the change of assumptions to 31st March 2019 is to increase the actuarial present value by £261m (17/18 decrease of £60m). There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Please note that the above present value of promised retirement benefits figure has been adjusted to include an approximate allowance for the McCloud ruling, i.e. an estimate of the potential increase in past service benefit arising from this case affecting public sector pension schemes. The allowance was calculated as 0.2% of total liability which is equal to approximately £7m.

Significant Actuarial Assumptions Used

Financial assumption:

Year ended	31st March 2018 % pa	**31st March 2019 % pa**
Inflation/Pension Increase Rate	2.4	**2.5**
Salary Increase Rate	2.7	**2.8**
Discount Rate	2.7	**2.4**

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 2019

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

Longevity assumptions as at 31st March 2018

	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% (35% 2017/18) of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 68% (68% 2017/18) 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%.

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

Sensitivity to the assumptions for the year ended 31st March 2018	Approximate % increase to liabilities %	Approximate monetary amount £m
0.5% p.a. increase in the Pension Increase Rate	8	250
0.5% p.a. increase in the Salary Increase Rate	1	44
0.5% p.a. decrease in the Real Discount Rate	10	311

N27 Nature and Extent of Risks Arising from Financial Instruments

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

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities i.e. promised benefits payable to members. Therefore the aim of investment risk management is to minimise the risk of an overall reduction on the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

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

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

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

Market Risk

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

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

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors 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 2019. 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 2019 by the amounts shown overleaf:

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

As at 31st March 2018 re-stated*	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
UK Bonds	172,032	10.20	189,579	154,485
UK Index Linked Gilts	86,291	7.20	92,504	80,078
UK Equities	380,754	16.80	444,721	316,788
Overseas Bonds	221,071	10.20	243,620	198,521
Multi National Equities	1,116,566	17.50	1,311,965	921,167
UK Property	173,972	14.30	198,850	149,094
Overseas Property	9,930	14.30	11,351	8,510
Venture Capital/Private Equity	5,624	28.30	7,216	4,032
Private Debt	16,859	5.10	17,718	15,999
	2,183,099		**2,517,524**	**1,848,674**
Total Gloucestershire Fund	**2,183,099**	**11.30%**	**2,429,789**	**1,936,409**

* Please see Note 34(a) for details

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 2019 is set out opposite along with the interest rate sensitivity analysis data.

Interest Rate Risk Sensitivity Analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. Over the last five years long term yields, as measured by the yield on the FTSE Over 15 Year Gilt Index as at the end of March 2019, have averaged

2.11% (2017/18 2.41%) and moved between a high of 3.45% (3.58% 2017/18) and a low of 1.13% (1.17% 2017/18). As at the end of March 2019 this yield was 1.48% (1.63% 2017/18). 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 2019	Change in the year in the net assets available to pay benefits	
		+100BPS (1% increase)	-100BPS (1% decrease)
	£000	£000	£000
Cash held directly by the Fund	8,006	-	-
Cash and cash equivalents held on behalf of the Fund	11,753	-	-
Bond Portfolio - Fixed Interest Securities excluding cash	520,040	-33,024	33,024
	539,799	-33,024	33,024

Assets exposed to interest rate risk	Carrying amount as at 31st March 2018	Change in the year in the net assets available to pay benefits	
		+100BPS (1% increase)	-100BPS (1% decrease)
	£000	£000	£000
Cash held directly by the Fund	21,748	-	-
Cash and cash equivalents held on behalf of the Fund	23,118	-	-
Bond Portfolio - Fixed Interest Securities excluding cash	480,716	-52,509	52,509
	525,582	-52,509	52,509

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 8.8% (as measured by one standard deviation).

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

A 8.8% 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 overleaf:

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

2017/18 Currency exposure - Asset Type	Asset value as at 31st March 2018 £000	Change to net assets available to pay benefits £000 +9.1%	£000 -9.1%
UK Equities	1,033	1,124	942
Global Equities	732,208	796,642	667,774
Emerging Market Equities	96,495	104,987	88,003
Overseas Private Debt	10,693	11,634	9,752
Venture Capital /Private Equity/ Infrastructure	-	-	-
Cash/Cash equivalents*	2,011	2,194	1,828
	842,440	**916,581**	**768,299**

* Includes all cash instrument balances with currency exposure which were not included in prior years.
The impact of this inclusion had no bearing on the overall percentage change reported in 2017/18.

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 2019 is set out below.

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

Credit Analysis 31st March 2018	**AAA £000**	**AA £000**	**A £000**	**BBB £000**	**BB £000**	**B £000**	**Unrated £000**
UK Gilts	-	51,051	-	-	-	-	-
UK Index Linked	-	86,526	-	-	-	-	-
Overseas Govt Bonds	14,338	-	-	-	-	-	-
Overseas Inflation-linked	9,718	-	-	-	-	-	-
Corporate Bonds	1,802	14,035	49,918	38,933	-	-	-
High Yield	-	-	-	-	8,979	-	-
Emerging Markets	-	-	1,457	-	940	-	-
Mortgage Backed Securities	-	2,058	3,503	10,676	2,639	-	-
Supra/Sov/Local Govts	-	-	-	-	-	-	-
Cash/Cash Equivalents/ Currency Forwards	10,411	-	1,313	-	-	-	-
	36,269	**153,670**	**56,191**	**49,609**	**12,558**	**-**	**-**
% of Fixed Interest Portfolio	11.8	49.8	18.2	16.1	4.1	-	-

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 2019 is shown below:

	Balances as at 31st March 2018		Balances as at 31st March 2019	
Account Name	Rating*	£000	Rating*	£000
Aberdeen Standard Liquidity Fund**	AAAm	6,191	AAAm	**757**
Federated Short Term Sterling Prime Fund	AAAm	7,376	AAAm	**6,209**
HSBC Instant Access	A1+/AA-	392	AA-	**861**
HSBC Current Account	A1+/AA-	240	AA-	**179**
Goldman Sachs	AAAm	7,549	AAAm	**-**
Total		21,748		**8,006**

* Ratings quoted are all Standard and Poors as at 31st March 2019 and 2018.
**Change following merger of Standard Life Plc. and Aberdeen Asset Management Plc.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Pension Fund has not experienced any actual defaults in recent years and the current practice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties. Contributions due as at 31st March 2019 was £4,708k (2017/18 £4,121k) and as at 16th July 2019, £54k remained outstanding.

Liquidity Risk

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

Refinancing Risk

Refinancing risk relates to the Fund being required to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. Refinancing risk within the Bond portfolio is mitigated through credit and liquidity analysis of all investments and diversification by issuer and maturity. The CBRE property fund managed on behalf of the Pension Fund is not leveraged or subject to refinancing risk. However, the underlying investments within this portfolio are leveraged and so may be subject to refinancing risk. This risk is mitigated by covenants written into the Fund documentation. There are no other financial instruments that have refinancing risk as part of its treasury management and investment strategies.

N28 Fair Value Hierarchy

Basis of valuation

The basis of the valuation of each class of investment asset is set out opposite. 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
Property pooled investments	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV based pricing set on a forward pricing basis.	Valuations could be affected by changes in the structure of the holdings such as changing from a closed ended fund to an open ended fund.
Private equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012).	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows and by any differences between audited and unaudited accounts.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Private Debt	Level 3	Fair value is determined by the following factors: enterprise value of a portfolio company; the nature and realisable value of any collateral; the portfolio company's ability to make payments and its earnings; discounted cash flows; market environment and changes in the interest rate environment.	Initial recognition cost, Principal repayments, effective interest method, Impairment reductions.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts.
Infrastructure Funds	Level 3	Direct investments: Independent valuation performed using discounted cash flow methodology in accordance with international private equity valuation guidelines	Future free cash flows from underlying investments. Cost of capital of underlying investments	Valuations could be affected by material events occurring after the preparation of the independent reports, and by changes to expected cash flows

Sensitivity of assets valued at level 3

Having consulted with independent advisors, the Fund has determined that the valuation methods described on the previous page and 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 2019.

2018/19	Assessed valuation range (+/-)	Value at 31st March 2019 £000	Value on Increase £000	Value on Decrease £000
UK property pooled funds	14%	164,487	187,515	141,458
Overseas property pooled funds	14%	-	-	-
Venture Capital/Private equity/ Infrastructure	28%	7,249	9,279	5,219
UK corporate Bonds	11%	3,512	3,898	3,126
Overseas Private Debt	6%	20,145	21,354	18,936
UK Private Debt	6%	22,252	23,587	20,917
Total		**217,645**	**245,633**	**189,657**

2017/18	Assessed valuation range (+/-)	Value at 31st March 2018 £000	Value on Increase £000	Value on Decrease £000
UK property pooled funds	14%	150,695	171,792	129,598
Overseas property pooled funds	14%	2,706	3,085	2,327
Private equity	28%	5,624	7,199	4,049
UK corporate Bonds	10%	2,047	2,252	1,842
Overseas Private Debt	5%	10,693	11,228	10,158
UK Private Debt	5%	6,166	6,474	5,858
Total		**177,931**	**202,030**	**153,832**

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.

Values at 31st March 2019	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss	773	2,142,475	217,645	2,360,893
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-1,315	-	-	-1,315
Investment manager cash and accruals				6,015
Net Investment Assets	-542	2,142,475	217,645	2,365,593
Brunel Pension Partnership				395
Investment Debtors/Creditors				12,730
Total Net Investments Assets	**-542**	**2,142,475**	**217,645**	**2,378,718**

Values at 31st March 2018	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss	402,797	1,625,449	176,896	2,205,142
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	-	-	-
Investment manager cash and accruals				6,784
Net Investment Assets	402,797	1,625,449	176,896	2,211,926
Brunel Pension Partnership				840
Investment Debtors/Creditors*				26,675
Total Net Investments Assets	**402,797**	**1,625,449**	**176,896**	**2,239,441**

* Investment debtors and creditors have been added to this table to reflect the total net assets of the Fund.

Transfers between Levels 1 and 2

In consultation with Fund Managers and the Global Custodian, the Fund has made the decision to move all cash instrument balances from level 1 to level 2 following a detailed review of the Statement of Recommended Practice (SORP) as well as an extract from the Practical Guidance on Investment Disclosures (PRAG, Investment Association 2016). The Fund considers cash instruments to have 'observable inputs to valuation techniques'.

Cash instrument balances currently valued at £9,185k (£21,853k 2017/18) have been moved from level 1 in 2017/18 to level 2 in 2018/19.

In addition, during 2018/19 the Fund transitioned out of its UK equity mandate and into the Brunel Pension Partnership (BPP) UK equity unit trust. The Fund has categorised the new mandate as a level 2 asset as a result.

Reconciliation of Fair Value Measurements within Level 3

2018/19	UK Property Pooled Funds £000	Overseas Property Pooled Funds £000	Private Equity £000	Overseas Private Debt £000	UK Private Debt £000	UK Corporate Bonds £000	Total £000
Market Value 31st March 2018*	153,401	-	5,624	10,693	6,166	1,012	176,896
Transfers into Level 3	-	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-	-
Purchases during the year and derivative payments	6,728	-	2,313	8,771	20,409	2,557	40,778
Sales during the year and derivative receipts	-	-	-797	-	-4,270	-47	-5,114
Unrealised gains/(losses)	4,358	-	109	681	-53	-10	5,085
Realised gains/(losses)	-	-	-	-	-	-	-
Market Value 31st March 2019	**164,487**	**-**	**7,249**	**20,145**	**22,252**	**3,512**	**217,645**

*During 2018/19, two property assets previously categorised as overseas property pooled funds were re-evaluated as UK property pooled funds on the basis that the underlying funds held within the portfolio are invested in UK property despite being domiciled overseas.

2017/18 re-stated	UK Property Pooled Funds £000	Overseas Property Pooled Funds £000	Private Equity £000	Overseas Private Debt £000	UK Private Debt £000	UK Corporate Bonds £000	Total £000
Market Value 31st March 2017	114,950	-	5,328	-	-	-	120,278
Transfers into Level 3	1,594	-	-	-	-	1,012	2,606
Transfers out of Level 3	-	-	-	-	-	-	-
Purchases during the year and derivative payments	31,685	-	116	11,604	6,131	-	49,536
Sales during the year and derivative receipts	-25	-	-	-	-	-	-25
Unrealised gains/(losses)	5,287	-	180	-911	35	-	4,591
Realised gains/(losses)	-90	-	-	-	-	-	-90
Market Value 31st March 2018	**153,401**	**-**	**5,624**	**10,693**	**6,166**	**1,012**	**176,896**

The Fund determined one corporate bond security to be level 3 during 2017/18. We have since been able to establish a market price for this security which we believe indicates this should be categorised as level 2. The 2018/19 UK Corporate Bond figures reflect this omission.

Please see note 34(b) for further breakdown.

N29 Financial Instrument Disclosure

2018/19	Fair value through profit & loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
Financial assets			
Bonds	323,927	-	-
Equities	-	-	-
Pooled investments	1,829,558	-	-
Property Unit Trusts	192,478	-	-
Private equity	4,972	-	-
Brunel Pension Partnership	395	-	-
Derivative contracts	1,297	-	-
Cash	-	19,759	-
Other investment balances	-	4,450	-
Debtors	-	1,902	-
	2,352,627	26,111	-
Financial liabilities			
Derivative contracts	-1,429	-	-
Other investment balances	-	-1,412	-
Creditors	-	-	-2,301
Borrowings	-	-	-
	-1,429	-1,412	-2,301
Total	**2,351,198**	**24,699**	**-2,301**

2017/18	Fair value through profit & loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
Financial assets			
Bonds	288,855	-	-
Equities	380,754	-	-
Pooled investments*	1,331,728	-	-
Property Unit Trusts*	176,138	-	-
Private equity	5,624	-	-
Brunel Pension Partnership	840	-	-
Derivative contracts	710	-	-
Cash	-	44,866	-
Other investment balances	-	5,871	-
Debtors	-	2,549	-
	2,184,649	53,286	-
Financial liabilities			
Derivative contracts	-320	-	-
Other investment balances	-	-552	-
Creditors	-	-	-2,009
Borrowings	-	-	-
	-320	-552	-2,009
Total	**2,184,329**	**52,734**	**-2,009**

* Investments managed by one of the property managers have been re-assessed and their asset classification changed. The 2017/18 comparable figures have been amended to reflect that change. See Note N34 (a) for more details.

N29(a) Net gains and losses on financial instruments

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

	2017/18 £000	2018/19 £000
Financial assets		
Fair value through profit and loss	74,344	90,864
Amortised cost - realised gains on de-recognition of assets	-	-
Amortised cost - unrealised gains	-	-
Financial liabilities		
Fair value through profit and loss	-	-
Amortised cost - realised losses on de-recognition of assets	-	-
Amortised cost - unrealised losses	-	-
	74,344	90,864

N30 Bulk Transfers in and out of the Pension Fund

Transfers to or from other pension funds

During 2018/19 there were no bulk transfers to or from other pension funds.

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

The Code requires consideration of the impact of standards that have been issued but not yet adopted. This is to enable users to evaluate the risk of these new standards on the Pension Fund's current financial position.

IAS 40 Investment Property: Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This will not have an impact on the Pension Fund and is therefore considered to be immaterial.

IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Pension Fund does not have any material transactions within the scope of the amendment.

IFRIC 23 Uncertainty over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the fund account or net asset statement.

N32 Taxation where lifetime or annual allowances are exceeded

Where a member's benefit entitlement exceeds the United Kingdom Inland Revenue tax limits (Lifetime Allowance or the Annual Allowance), the member is liable for taxation. This tax can be paid by the member or has to be paid by the Pension Fund on behalf of the member in exchange for a reduction in benefit entitlement. The Pension Fund has paid £81k on behalf of members during 2018/19 (£71k 2017/18). 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

Change in asset classification N34 (a)

Investments managed by one of the property managers have been re-assessed and their asset classification changed. The 2017/18 comparable figures have been amended to reflect that change in the Net Asset Statement, Note 4, Investment Movement Summary, Note 12, Unquoted Holdings, Note 14, Financial asset analysis and Note 29, Financial Instrument Disclosure.

	2017/18	2017/18 re-stated	Difference
	Market value £000	Market value £000	£000
Net Asset Statement			
Pooled investment vehicles	1,329,483	1,331,728	2,245
Property Unit Trusts	178,383	176,138	-2,245
	1,507,866	1,507,866	-
Investment Movement Summary (Note 4)	**Market value at 31st March 2017 £000**	**Market value at 31st March 2017 £000**	**£000**
Pooled Investment Vehicles	1,251,349	1,252,164	-815
Property Unit Trusts	135,534	134,719	815
	1,386,883	1,386,883	-
	Purchases during the year at cost and derivative payments £000	**Purchases during the year at cost and derivative payments £000**	**£000**
Pooled Investment Vehicles	77,148	78,306	-1,158
Property Unit Trusts	35,633	34,475	1,158
	112,781	112,781	-
	Change in market value during the year £000	**Change in market value during the year £000**	**£000**
Pooled Investment Vehicles	75,047	75,319	-272
Property Unit Trusts	7,679	7,407	272
	82,726	82,726	-
	Market value at 31st March 2018 £000	**Market value at 31st March 2018 £000**	**£000**
Pooled Investment Vehicles	1,329,483	1,331,728	-2,245
Property Unit Trusts	178,383	176,138	2,245
	1,507,866	1,507,866	-

	2017/18 £000	2017/18 re-stated £000	Difference £000
Unquoted Holdings (Note 12)			
UK property managed fund	3,710	7,289	3,579
UK property limited liability partnership	1,809	475	-1,334
UK property unit trust	30,632	34,591	3,959
Overseas property unit trust	16,134	9,930	-6,204
	52,285	52,285	-
Financial Asset Analysis (Note 12)	**£000**	**£000**	**£000**
O.E.I.C.'s			
UK - Property - Unquoted Limited Liability Partnerships	3,710	7,289	3,579
UK - Property - Unquoted	1,809	475	-1,334
Property Unit Trusts			
UK - Unquoted	30,632	34,591	3,959
Overseas - Unquoted	16,134	9,930	-6,204
	48,575	44,996	-
Nature and extent of risks arising from Financial Instruments (Note 27)			
Other Price Risk Sensitivity Analysis	**£000**	**£000**	**£000**
UK Property	164,058	173,972	9,914
Overseas Property	19,844	9,930	-9,914
	183,902	183,902	-
Financial Instrument Disclosure (Note 29)	**Fair value through profit and loss 2017/18 £000**	**Fair value athrough profit and loss 2017/18 re-stated £000**	**Difference £000**
Pooled Investment Vehicles	1,329,483	1,331,728	2,245
Property Unit Trusts	178,383	176,138	-2,245
	1,507,866	1,507,866	-

N34 (b)

During 2018/19, two property assets previously categorised as overseas property pooled funds were re-evaluated as UK property pooled funds on the basis that the underlying funds held within the portfolio are invested in UK property despite being domiciled overseas.

The Fund determined one corporate bond security to be level 3 during 2017/18. We have since been able to establish a market price for this security which we believe indicates this should be categorised as level 2. The 2018/19 UK Corporate Bond figures reflect this omission.

	UK property pooled funds £000	Overseas property pooled funds £000	UK corporate bonds £000
Market Value 31st March 2018	150,695	2,706	2,047
Two property assets now classified as UK property	2,706	-2,706	-
Removal of Corporate Bond from level 3 to level 2	-	-	-1,035
Re-stated Market Value 31st March 2018	**153,401**	**-**	**1,012**

Asset Pools

Investment Pooling – Brunel Pension Partnership

In 2015 the Department of Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money, and
- An improved capacity and capability to invest in infrastructure

This has led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with individual pension funds.

As a result of the investment pooling agenda, the Gloucestershire Fund joined with nine other LGPS administering authorities to set up the Brunel Pension Partnership (BPP). Gloucestershire County Council approved the business case for BPP in December 2016, based on estimated potential fee savings of £550 million over a 20 year period across the ten funds, of which Gloucestershire's share was estimated to be £10.8 million. This estimated fee saving is much lower than for the majority of Funds in the BPP, due to the fact that the investment management fees being paid by the Gloucestershire Fund were generally lower than those paid by the other Funds in the BPP.

The project will see initial net costs in the early years primarily due to transition costs, but will break even in the future as fee savings are delivered. With regard to the Gloucestershire Fund the original business case forecasts that the Fund would break even by 2029.

Governance Arrangements of the pool

The governance arrangement in place between the pool and the ten funds involves two types of representation:

1. Oversight Board made up of one representative from each of the fund Committee's and two member representative observers

2. Client Group made up of senior officers from each of the ten fund's

Further details of the role and involvement of administering authorities in the governance arrangements of the pool can be found within the BPP annual report for the year ended 30th September 2018. A link to this document can be found here:

https://www.brunelpensionpartnership.org/wp-content/uploads/2019/01/BrunelAnnualReport2018.pdf

Pool set up costs and savings

The expected costs and savings for the Gloucestershire Pension Fund, as per the original business case approved in December 2016, and then submitted to Government, are set out in the table below.

Gloucestershire Pension Fund Expected Costs and Savings from Pooling (As per Business Case Submissions)

	2016/ 2017 £000	2017/ 2018 £000	2018/ 2019 £000	2019/ 2020 £000	2020/ 2021 £000	2021/ 2022 £000	2022/ 2023 £000	2023/ 2024 £000	2024/ 2025 £000	2025/ 2026 £000	2026 to 2036 £000	Total £000
Set up costs	117	1,034	-	-	-	-	-	-	-	-	-	1,151
Ongoing Brunel costs	-	-	413	535	552	570	588	607	627	647	7,742	281
Client savings	-	-	(64)	(66)	(68)	(70)	(72)	(74)	(76)	(78)	(924)	(1,492)
Transition costs	-	-	1,327	2,652	13	-	-	-	-	-	-	3,992
Fee savings	-	-	(171)	(557)	(898)	(965)	(1,037)	(1,111)	(1,191)	(1,274)	(19,514)	(26,718)
Net costs / (realised savings)	**117**	**1,034**	**1,505**	**2,564**	**(401)**	**(465)**	**(521)**	**(578)**	**(640)**	**(705)**	**(12,696)**	**(10,786)**

Following approval of the business case, the BPP Ltd was established in July 2017, as a company wholly owned by the Administering Authorities (in equal shares) that participate in the pool. The company is authorised by the Financial Conduct Authority (FCA). It is responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds' assets within defined outcome focused investment portfolios. In particular, it researches and selects the external managers or pooled funds needed to meet the investment objective of each portfolio.

Now that BPP is operational, the financial performance of the pool will be monitored to ensure that BPP is delivering on the key objectives of investment pooling. This includes reporting of the costs associated with the appointment and management of the pool company including set up costs, investment management expenses and the oversight and monitoring of BPP by the client funds. The set up and transition costs incurred to date are set out in the following table.

BPP Pool Set Up Costs

Gloucestershire's share of the Brunel Pool set up costs	2018/19 Direct £000	2018/19 Indirect £000	2018/19 Total £000	Cumulative to date £000
Set up costs				
Recruitment	-	-	-	18
Legal	-	-	-	133
Consulting, advisory & procurement	-	-	-	82
Other support costs e.g IT, accommodation	-	-	-	0
Share purchase / subscription costs	-	-	-	840
Staff costs	-	-	-	-
Other costs	-	-	-	-
Total set up costs	**-**	**-**	**-**	**1,073**
Transition costs				
Transition fee	-	-	-	-
Tax	-	555	555	555
Other transition costs	-	1,628	1,628	1,628
Total transition costs	**-**	**2,183**	**2,183**	**2,183**

The Gloucestershire Fund transitioned its first assets to BPP in July 2018. During 2018/19 the allocations made to the mandates set out in the table overleaf were actioned. The savings achieved to date by the Gloucestershire Fund are also provided in the table.

Investment Fee Savings from Pooling

Portfolio	Value in Original Business Case (31st March 2016) £000	Value at 31st March 2019 £000	Price Variance £000	Quantity Variance £000	Total Saving/ (Cost) £000
Global Developed Passive Equities	301,562	252,494	51,493	11,279	62,772
Smart Beta Passive Equities	-	217,971	56,436	(119,782)	(63,346)
Low Carbon Passive Equities	-	50,750	5,388	(12,572)	(7,184)
Active UK Equities	318,696	365,801	181,159	(41,516)	139,643
Infrastructure	-	-	-	-	-
Private Equity	-	-	-	-	-
Total			**294,476**	**(162,591)**	**131,885**

This analysis shows the fee savings achieved for the assets that have transitioned to BPP portfolios in comparison to the fees estimated at the time the business case for pooling was prepared in 2016. Where fee reductions were granted by one of the Investment Managers due to pooling, slightly in advance of the formulation of the business case, the benefits of these fee reductions are included within the table.

Where the Gloucestershire Fund was not invested in some of the mandates at 31st March 2016, the fee savings were estimated by comparing the fees payable under BPP, with the average of fees paid, pre BPP, by other Funds joining the Brunel Pension Partnership, who were invested in these mandates at 31st March 2016.

Expected Costs compared to Actual Costs / Savings to Date

	2017/18				2018/19			
	Budget		Actual		Budget		Actual	
	In year £000	Cumulative to date £000	In year £000	Cumulative to date £000	In year £000	Cumulative to date £000	In year £000	Cumulative to date £000
Set up costs	1,034	1,151	1,072	1,072	0	1,151	0	1,072
Ongoing Brunel costs	-	-	-	-	413	413	660	660
Gloucestershire Fund savings	-	-	-	-	(64)	(64)	0	0
Transition costs	-	-	-	-	1,327	1,327	2,183	2,183
Fee savings	-	-	-	-	(171)	(171)	(294)	(294)
Net costs/(realised savings)	**1,034**	**1,151**	**1,072**	**1,072**	**1,505**	**2,656**	**2,549**	**3,621**

The most significant variances from the original business case can be summarised as follows:

The actual transition costs for 2018/19 for the Gloucestershire Fund totalled £2.183 million compared with the estimate shown in the original business case of £1.237 million. The costs in excess of budget related to the UK equities transition which was forecast to cost the equivalent of 14 basis points in the original business case, but actually cost the equivalent of 54.3 basis points.

The key reasons for the costs exceeding the original budget were:

1. The budget for transition costs relating to the UK equity tender in the original business case did not include stamp duty payable.

This equated to the equivalent of 12.6 basis points, or £472,000 in relation to the Gloucestershire Fund.

2. The budget included in the original business case could not be based on specific asset holdings, and hence used estimated assets under management based on original client intentions. The assumptions behind the budget figure assumed a materially more liquid portfolio than the one that was actually transitioned, resulting in higher costs than anticipated when the original business case was formulated, and could not take account of specific portfolio holdings, one of which experienced a significant downturn in value over the transition period.

Fee savings in 2018/19 are higher as a result of higher asset values due to the higher than anticipated investment returns over the last three years, and the fact that the fee rates achieved by the Brunel Pension Partnership were slightly lower than included within the original business case.

Additional resources have been required by BPP over and above those envisaged by the original business case, in order to deliver the service required by their clients. As a result, the ongoing overhead costs of the BPP are higher than originally estimated.

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 120 to 156.

A key challenge for the Administering Authority is to balance the need for stable affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit in order to improve the stability of employer contributions. These include, where circumstances permit, capping of employer contribution rate changes within a pre-determined range ("stabilisation"), the use of extended deficit recovery periods, the phasing in of contribution rises or reductions, the pooling of contributions amongst employers with similar characteristics and the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case. Section 3.3 of the FSS on pages 128 to 129 gives a summary of how the main funding policies differ for different types of employer.

New eligible admitted bodies, those employers who do not have an automatic right to join the Pension Fund, are only admitted into the Fund if they have a guarantor to cover any pension obligations which are not met. They may also be required to have an indemnity bond or security in place to cover any potential risks and these are reviewed annually. Admitted bodies do not have the same freedoms as scheduled bodies in how they fund their liabilities and these are set out again in Section 3.3 of the FSS on pages 128 to 129.

Funding Strategy Statement

The Funding Strategy Statement shown below is the current version of this statement.

1. Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Gloucestershire County Council Pension Fund ("the Fund"), which is administered by Gloucestershire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 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 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 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 Administering 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 31st March 2019 valuation, to take effect from 1st 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 (1st 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 a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit 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 does not 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) overleaf;

- 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 for premature retirement except on grounds of ill-health.

Employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. The exception to this rule are statutory bodies with tax raising powers, where, depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years. If this is agreed, interest will be charged, using factors provided by the actuary. In any event the spread period cannot exceed the period to the member's normal retirement date if this is shorter than 3 years.

3.7 Ill health early retirement costs

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:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;

- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and

- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

3.11 Excess salary awards

The Fund Actuary makes assumptions regarding future pay growth applying to the pre-1st April 2014 accrual of benefit of current active members. Should actual pay rises exceed this assumption then the employer's liabilities will increase, and this increase could be very marked as pay growth immediately affects all benefits accrued before April 2014.

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 Forum 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
- A copy sent by e-mail to each participating employer in the Fund;
- A copy sent by e-mail 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 advisors;
- 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

> 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, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

6. advise on the termination of employers' participation in the Fund; and

7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's 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 the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure four key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
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.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. 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.
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.	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. 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.
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	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	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: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). 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.

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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. 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.
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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

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.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the Rates and Adjustments certificate to increase an employer's contributions between triennial valuations. Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.

C5 Governance risks (continued)

Risk	Summary of Control Mechanisms
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: ◦ Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (h) and (j) to 3.3). ◦ Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. ◦ Vetting prospective employers before admission. ◦ Where permitted under the regulations requiring a bond to protect the Fund from various risks. ◦ Requiring new Community Admission Bodies to have a guarantor. ◦ Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). ◦ Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

> 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 overleaf); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's 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 opposite)

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, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but 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 31st 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.

Investment Strategy Statement

This is the Investment Strategy Statement ("ISS") of the Gloucestershire Pension Fund ("the Fund"), which is administered by Gloucestershire County Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the investment consultancy team at Hymans Robertson LLP, and the Fund's Independent Advisor. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee in March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy (dated February 2017).

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death for their dependants, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

The Fund carried out an asset liability modelling exercise in conjunction with the 2016 actuarial valuation. A number of different contribution and investment strategies were modelled and the future evolution of the Fund considered under a wide range of different scenarios. The Committee considered the chances of achieving their long term funding target – achieving a fully funded position within the next 17 years. They also considered the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability, given the Fund's level of funding and liability profile
- The level of expected risk
- The outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, and loans either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Committee has recently carried out a review of the investment strategy. The conclusions of the review were that the Fund could afford to take a modestly lower level of investment risk and that the BPP pool arrangements would allow more opportunity for cost-effective diversification into other 'return-seeking' assets. As a result, the overall target allocation to equities has been reduced and there have been increases in the target allocations to corporate bonds, diversified credit, infrastructure and private debt.

The new target investment strategy is set out below. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The short term target allocation refers to the proposed allocation prior to the investment of assets within the Brunel pool. The medium term target allocation refers to the proposed allocation within the Brunel pool once the Equity and Bond Funds are launched. The long term target allocation refers to the intended allocation once the range of Brunel funds have all been established.

Table 1: Target asset allocations by Investment Category

Investment Category	Current allocation (%)	Evolution of the Brunel Pool Final proposed Short Term target allocation (%)	Brunel Funds Launched Final proposed Medium Term target allocation (%)	All Brunel Funds available Final proposed Long Term target allocation (%)
Equities	65.0	60.5	60.5	58.5
Alternatives	17.0	20.0	20.0	22.0
Core Bonds	18.0	19.5	19.5	19.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

Table 2: Target asset allocations by Individual Asset Category

Evolution of the Brunel Pool		Pre-pooling	Brunel Equity/ Bond Funds launched	All Brunel Funds available
	Current allocation (%)	FINAL Short Term target allocation (%)	FINAL Medium Term target allocation (%)	FINAL Long Term target allocation (%)
UK Core Active	20.0	18.5	-	-
UK High Active	-	-	7.5	7.5
UK Passive	-	-	7.5	7.5
Global Core Active	23.5	22.5	-	-
Global High Active	-	-	20.5	20.5
Global Passive	17.5	15.5	13.5	11.5
Smart Beta Equity Passive	-	-	7.5	7.5
Emerging Markets Passive	4.0	4.0	4.0	4.0
Total Equities	**65.0**	**60.5**	**60.5**	**58.5**
DGF	5.0	5.0	5.0	5.0
Infrastructure Capital	-	-	-	2.0
Property	7.5	7.5	7.5	7.5
Private Debt	-	2.5	2.5	2.5
Multi Sector Credit	4.5	5.0	5.0	5.0
Total Alternatives	**17.0**	**20.0**	**20.0**	**22.0**
UK Corporate Bonds	6.0	7.5	7.5	7.5
Fixed Interest Gilts	6.0	6.0	-	-
Index Linked Gilts	6.0	6.0	-	-
Passive Gilts/ Index Linked Gilts	-	-	12.0	12.0
Total Core Bonds	**18.0**	**19.5**	**19.5**	**19.5**
TOTAL ALL	**100**	**100**	**100**	**100**

As at February 2017, the expected return on the final target portfolio is approximately 5.4% p.a. with an expected annual volatility of the funding level of 9.6%. This volatility includes an assumed diversification benefit. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved and a rebalancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The individual investment manager mandates in which the Fund assets will be invested prior to investing in the Brunel pool are as follows:-

Investment Manager	Asset Class	Investment style	Benchmark Index
Standard Life	UK Equities	Active	FTSE All Share
Blackrock	Global Equities	Active	MSCI AC World
Blackrock	Global Equities	Passive	MSCI World (Hedged)
Blackrock	Emerging Market Equities	Passive	MSCI Em. Markets
Standard Life	Diversified Growth	Active	Cash + 5%
Hermes	UK Property	Active	IPD UK Balanced
CBRE	UK and Global Property	Active	IPD UK Balanced
Western	Multi Sector Credit	Active	Cash + 2%
Western	Bonds	Active	Composite – Gilts, Index Linked and Corporate Bonds

In addition, there are small holdings in two private equity funds managed by Yorkshire Fund Managers and Technology Venture Partners LLP.

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities

- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2019 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows:

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, the Committee has recognised the need for access to liquidity in the short term.

The Fund in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. A proportion of the currency risk relating to the Fund's overseas equity investments is hedged through investment in currency hedged fund units with Blackrock. Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- Credit default - The possibility of default of a counterparty in meeting its obligations.

- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Gloucestershire Pension Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (BPP Ltd). This is currently work in progress with the intention of meeting the Government's requirement for the pool to become operational and for the first assets to transition to the pool from April 2018.The Fund's intention is to invest its assets through the BPP pool as and when suitable investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.

2 That there is financial benefit to the Fund in investing in the solution offered by the Pool.

The detailed parameters and objectives of the BPP fund range are still being finalised.

At the time of preparing this statement, the Fund has elected not to invest the following assets via the BPP Pool:

- Holdings in two closed end fixed life venture capital funds managed by Technology Venture Partners LLP and Yorkshire Fund Managers, namely the South West Region Venture Capital Fund and Chandos Fund. Commitments to these funds total £5.5m. The funds will mature over the next few years and repay their proceeds to the Fund. There is no effective secondary market for the Fund's investments.

Any assets not invested in BPP will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

Once the Brunel Pension Partnership Ltd. is established the Gloucestershire Pension Fund, through the Pension Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by BPP Ltd.

The Brunel Pension Partnership Ltd will be a new company which will be wholly owned by the Administering Authorities. The company will seek authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers. The Gloucestershire fund will be a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service.

A detailed service agreement is being drafted which will set out the duties and responsibilities of BPP ltd, and the rights of the Gloucestershire Fund as a client. It includes a duty of care of BPP to act in its clients' interests.

An Oversight Board will be established. This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

Gloucestershire County Council has approved the full business case for the Brunel Pension Partnership. It is anticipated that investment assets will be transitioned across from the Gloucestershire Pension Fund's existing investment managers to the portfolios managed by BPP Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with BPP Ltd. Until such time as transitions take place, the Gloucestershire Pension Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan outlined above, it is envisaged that all of the Gloucestershire Pension Fund's assets will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed in partnership with BPP Ltd. until such time as they are liquidated, and capital is returned.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/ owners, through considered voting of shares, and encouraging its investment managers to engage with investee company management as part of the investment process.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

To date, the Fund's approach to Social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties. The Fund's managers report on this matter in their quarterly reports to the Committee.

The Fund does not hold any assets which it deems to be social investments.

The Brunel Pension Partnership Investment Principles clearly articulate the commitment of each Fund in the Partnership and its operator (Brunel Company), to be responsible investors and as such recognise that social, environment and corporate governance considerations are part of the processes in the selection, non-selection, retention and realisation of assets. One of the principal benefits, outlined in the BPP business case, achieved through scale and resources arising from pooling is the improved implementation of responsible investment and stewardship. Every portfolio, in every asset class, under the Brunel Pension Partnership, explicitly includes responsible investment and includes an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives. More information is on the BPP website.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers on a regular basis.

Stewardship

The Committee will be reviewing its policy towards becoming a signatory to the Stewardship Code as published by the Financial Reporting Council. In relation to the asset classes where the UK Stewardship Code is relevant, our Fund Managers are signatories. The Committee expects both the BPP pool and any directly appointed fund managers to comply with the Stewardship Code and this is monitored on an annual basis.

In addition, the Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

As part of the Brunel Pension Partnership (BPP) we are exploring opportunities to enhance our stewardship activities. More information is on the BPP website. One of the principal benefits, outlined in the BPP business case, achieved through scale and resources arising from pooling is the improved implementation of responsible investment and stewardship. Once established and fully operation the Brunel company will deliver best practice standards in responsible investment and stewardship as outlined in the BPP Investment Principles.

Communications Policy

The following Communications Policy Statement outlines how the Fund communicates with scheme members, their representatives and employers and was reviewed in August 2018.

All employers are instructed to issue new employees with a pensions starter pack provided by the Administering Authority, which provides information regarding the pension scheme and the individual's options together with links to where more detailed scheme information can be obtained.

HR and Payroll Guides to the 2014 Scheme are provided by the Local Government Association on the National LGPS 2014 Regulations & Guidance website. A link to this information is provided on the Employer page of the Fund's website together with an administration guide to the 2008 Scheme.

During 2018/19 the Pension Fund communicated with scheme members, their representatives and employers as set out in the policy statement below.

> Communications Policy Statement

Various means are employed to communicate with the Fund's stakeholders. These are described in respect of each interested group as shown below:

Members of the Scheme

An Annual Meeting is held each December and provides the main opportunity for the Fund to explain its performance and accounts to members of the Fund and employers.

The Fund's Annual Report is also placed on the pension pages of the County Council's website. This Report includes the Fund's policy statements covering Funding Strategy, Governance, Communication and Administration. In addition, each policy statement is listed separately on the website.

All pensioner members receive a pension newsletter each April that covers matters of interest.

An annual Benefit Statement is sent to all active and deferred members of the Fund showing their accrued benefits up to the end of the previous financial year. At this time the opportunity is also taken to include information on current matters of interest to scheme members.

Information on the scheme and changes to it are posted on the pension pages of the County Council's website and where appropriate these are also posted onto the "news" section of the staff intranet.

The Authority continues to send payslips to pensioners every April, May and October. The October pensioner pay slips include an invitation to the Fund's Annual Meeting and details on how to access the annual report and accounts.

Pay slips are also sent where the difference in the net pension payment is £10 or more from the previous month.

All active scheme members are sent an invitation to attend the Fund's Annual Meeting, via their employer and are given the link to the County Council's website to access a copy of the Fund's annual report and accounts. They are also given details on how to request a paper copy of the annual report and accounts.

Prospective Members of the Scheme

All employers are provided with a link to the employers' pages of the Fund's pension website, together with instructions on how to supply all prospective members of the scheme with a pensions pack. This pack informs individuals of the benefits of the scheme as well as details about where they can obtain further information.

Advice and guidance is provided by Pensions staff to all employers within the Fund on an on-going basis.

Scheme Employers

An online employers' guide to the scheme is made available to all new and prospective employers via the County Council's website.

Employers are also consulted on key revisions to the Funds strategy and policy documents - the Investment Strategy Statement, the Governance Policy and Compliance Statements, the Administration Strategy, the Communication Policy and the Funding Strategy Statement.

Employer forums are held with the administering authority at least twice yearly to help improve understanding of: the pension scheme; the employers' role and ways of improving the accuracy and timeliness of scheme administration. All employers are invited to attend. Minutes of the meetings and copies of any presentations are sent to all employers, including those unable to attend.

Copies of all relevant communications received centrally (i.e. from MHCLG, Treasury, HMRC, LGA, etc.) are circulated to employers to ensure they are kept informed. These documents are often discussed in detail at the Employers Forums. In addition, communications relating to operational requirements and changes are circulated to employers where required.

Where we are informed of a transfer, direct dialogue takes place between the administering authority and employers being affected by business transfers to ensure trades unions and prospective employers understand the pension scheme.

Every three years when the triennial valuation takes place meetings are arranged with the actuary to discuss the outcome of the valuation, contribution rates and e.g. options around phasing in any increase in contribution required.

Meetings are held with the Chief Financial Officers of District Councils where there is an opportunity for current developments and issues to be presented and discussed.

Employee Representation

The Pension Committee includes an employee representative nominated by the trades unions, as one of its members. The employee representative also represents pensioners and deferred members.

Employee representatives are involved in consultation where business transfers are proposed.

Pension Board

The Gloucestershire Pension Board meets at least twice a year and includes two employer representatives and two employee representatives. Members of the public are able to attend as observers.

Summary of Fund Benefits

Introduction

The Gloucestershire Pension Fund is administered under the Local Government Pension Scheme (LGPS) Regulations. Benefits built up from 1st April 2014 are calculated on a Career Average Revalued Earnings (C.A.R.E.) basis. Benefits accrued prior to 1st April 2014 continue to be protected on a "final salary" basis.

The scheme is open to all eligible employees regardless of the hours worked and continues to provide a comprehensive set of benefits for its members. Shown below is a summary of the key features of the scheme currently in force from 1st April 2014. This summary is only provided as an illustrative guide of some of the key features of the scheme and is not intended to give details of all the benefits provided, or the specific conditions relating to the provisions of the scheme.

Enquiries

Enquiries and more detailed information on the LGPS can be obtained by visiting the Gloucestershire County Council Pensions website at **www.gloucestershire.gov.uk/pensions** or from the Pensions Section at Shire Hall, Gloucester, phone (01452) 328888.

Local Government Pension Scheme (LGPS) Regulations 2013 (as amended) –

Principal Features of the Scheme in Force from 1st April 2014

- Employee Contribution Rate – Variable (9 Band Rates) between 5.5% and 12.5% depending on level of earnings.

- Annual Pension and Lump Sum

  - C.A.R.E. Pension based on 1/49th of pensionable pay attributable to each year of membership (index linked by C.P.I.) from 1st April 2014 PLUS option to exchange up to ¼ of pension pot for a lump sum (each £1 of pension providing £12 lump sum).

  - Any membership between 1st April 2008 and 31st March 2014 will provide a pension based on 1/60th of final years pensionable pay for each year of membership PLUS option to exchange up to ¼ of pension pot for a lump sum (each £1 of pension providing £12 lump sum)

  - Any pre 1st April 2008 membership will provide "standard benefits" of a pension based on 1/80th of final years pensionable pay for each year of membership PLUS a lump sum of three times the pension. There is also the option to exchange part of the pension to increase the lump sum to ¼ of the pension pot (each £1 of pension providing £12 lump sum).

- 50:50 Option - allowing members the option to pay half contributions for half pension benefits.

- Normal Retirement Date - Later of State Pension Age or age 65. Member also has the right to retire from age 55 (although benefits will normally suffer an actuarial reduction).

- Earliest Retirement Date – age 55 in cases of – Member initiated Early Retirement / Flexible Retirement / Redundancy / Efficiency of the Service.

- Ill Health Retirement – early payment of benefits (irrespective of age) if "permanently" incapable of continuing in the employment the member was engaged in due to medical reasons and is not immediately capable of undertaking any "gainful employment" in the future. Level of benefits based on a three tier system, depending on likelihood of being able to obtain "gainful employment".

- Provision for an ongoing pension is provided for a spouse, registered civil partner, eligible cohabiting partner (subject to certain qualifying conditions) and/or any eligible children in the event of a member's death.

- Lump Sum Death Grant - In the event of death in service, a lump sum death grant of three times annual pay is payable.

- Index Linking - Pensions are increased in accordance with annual review orders made under the Pension (Increase) Act 1971. The index currently used for this purpose is the Consumer Price Index (CPI).

- Additional Pension Benefits - In house facilities to increase potential benefits by:

  - paying additional monthly contributions to purchase additional pension (to a maximum (at 1st April 2018) of £6,822);

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

Glossary of Terms

Accrual
An amount to cover income or spending that has not yet been paid but which belongs to that accounting period.

Actuary
An advisor on financial questions involving probabilities relating to mortality and other contingencies. Every three years the Scheme appointed actuary reviews the assets and the liabilities of the Fund and reports to the Strategic Finance Director (and Section 151 Officer) on the financial position. This is known as the triennial actuarial valuation.

Active Investment Management
A style of investment management where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection (or by a combination of each).

Admitted Body
An organisation that chooses and is allowed by the scheme to be admitted to the LGPS using an Admission Agreement in order to provide access to the scheme for some or all of its employees.

Additional Voluntary Contributions (AVC's)
Contributions over and above a member's normal contributions which the member elects to pay in order to secure additional benefits.

Augmentation
This is when extra pension benefits can be bought for a pension scheme member. They are usually paid for by the employer 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 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 68.

Equities
Share in the ownership of a company, giving the holder the right to receive distributed profits and to vote at annual general meetings of the company. A term used for ordinary shares.

Exchange Traded Funds (ETFs/ET's)
A fund that tracks a selection or 'basket' of related securities within a stock market index but can be traded on an exchange like a stock or share.

Fair Value
A price deemed to accurately reflect the value of a security based on measurable valuation fundamentals. Considered to be an equitable valuation from the point of view of both buyer and seller.

FTSE
Indices maintained by the FTSE Group (an independent company originally set up by the Financial Times and the London Stock Exchange) which measures the performance of the shares listed on the London Stock Exchange.

Funding Level
The relationship at a specified date between the actuarial value of assets and the actuarial liability. Normally expressed as a funding ratio or percentage. Used as a measure of the fund's ability to meet future liabilities.

Futures Contracts
A contract which binds two parties to complete a sale or purchase at a specified future date at a price which is fixed at the time the contract is effected. Futures contracts have standard terms. Margin (deposit) payments are required, and settlement dealt via a clearing house.

Gilts
A bond issued by the UK Government and so-called because certificates used to be gilt-edged.

Global Custodian
An organisation which is responsible for the safe-keeping of assets, income collection and settlement of trades, independent of the asset management function.

Guaranteed Minimum Pension (GMP)
The minimum pension which a salary related occupational pension scheme must provide in respect of contracted out contributions paid between April 1978 and 1997, as a condition of contracting out of the state-earnings related pension scheme (SERPS).

Hedge
A means of protecting against financial loss, normally by taking an offsetting position in a related investment.

Index Tracking
An investment process which aims to match the returns on a particular market index either by holding all the stocks in the particular index or, more commonly a mathematically calculated sample of stocks that will perform as closely as possible to the index.

Investment Management Agreement
The document agreed between an investment manager and the Fund setting out the basis upon which the manager will manage a portfolio of investments for the Fund.

Investment Strategy
The Fund's long-term distribution of assets amongst various asset classes, taking into consideration, for example, the goals of the Pension Committee and their attitude to risk and timescale.

Leverage
The use of borrowed money to over-invest

a portfolio which magnifies both gains and losses. This may be achieved by derivative instruments. Also refers to the debt/equity ratio in a company's balance sheet.

Managed Fund

A pooled fund that invests across a wide range of asset classes. (See Pooled Investment Vehicle).

Market Value

The price at which an asset might reasonably be expected to be sold in an open market.

Membership

Local authority employment during which time pension contributions were made or deemed to have been made providing entitlement to benefits under the scheme.

MSCI Index

Indices maintained and produced by Morgan Stanley Capital International that track equity markets throughout the world. MSCI indexes are weighted by market capitalisation and include various countries, regions and industries in both developed and emerging markets.

Net Asset Value (NAV)

The value in a company or mutual fund, calculated by subtracting total debt from total assets and dividing the result by the number of shares or units in existence.

Notional Value

The value of a derivative's underlying assets.

Open Ended Investment Company (OEIC)

A pooled investment vehicle structured as a limited company. Investors can buy and sell shares on an on-going basis.

Options

The right but not the obligation to buy (call option) or sell (put option) a specific security at a specified price (the exercise or strike price), at or within a specified time (the expiry date). This right is obtained by payment of an amount (known as the premium) to the writer (seller) of the option, and can be exercised whatever happens to the security's market price.

Over The Counter (OTC)

Any market which does not operate through a recognised exchange.

Pensionable Earnings

The earnings on which benefits and/or contributions are calculated under the scheme rules.

Performance Measurement

Calculation of a fund's historic return on its investments.

PIRC

PIRC is an independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility.

Pooled Investment Vehicle

A fund in which a number of investors pool their assets, which are managed on a collective basis. The assets of a pooled investment vehicle are denominated in units that are re-valued regularly to reflect the values of underlying assets. Vehicles include: open ended investment companies, real estate investment trusts and unit trusts.

Projected Unit Method

An accrued benefits funding method in which the actuarial liability makes allowance for projected pensionable pay. The standard contribution rate is that necessary to cover the cost of all benefits which will accrue in the control period following the valuation date by reference to pensionable pay projected to the dates on which benefits become payable.

Quoted Investments

Investments that have their prices quoted on a recognised stock exchange.

Realised Gains/ (Losses)

Profit/(losses) on investments when they are sold at more/(less) than the purchase price.

Retail Price Index (RPI)

Measure of price inflation in the UK. The RPI measures the average change from month to month in the prices of goods and services purchased by most households in the UK.

Risk

The likelihood of a return different from that expected and the possible extent of the difference. It can also indicate the volatility of different assets.

Securities

General name for stocks and shares of all types that can be traded freely on the open market.

Segregated Fund

Where the assets of a particular fund are managed independently of those of other funds under the fund manager's control.

Specialist Management

When an investment manager's mandate is restricted to a specific asset class or sector. The Pension Committee determines allocations to each asset class.

Strategic Asset Allocation

The process of dividing investments between the main asset classes to meet the Fund's risk and return objectives.

Transfer Payment

A payment made from one pension scheme to another pension scheme in lieu of benefits which have accrued to the member or members concerned, to enable the receiving pension scheme to provide alternative benefits.

Transfer Value

The amount of the transfer payment.

Unitised Insurance Policy

Investors are issued with a life policy representing title. Investors' 'holdings of units' represent a means of calculating the value of their policy. The life fund/company holds the pool of investments and is the owner of all the assets.

Unit Trust

Unit trusts are collective funds which allow private investors to pool their money in a single fund, thus spreading risk, getting the benefit of professional fund management and reducing dealing costs. Unit trust trading is based on market forces and their net asset value - that is the value of their underlying assets divided by the number of units in issue. The activities of unit trusts are regulated by the FCA.

Universe

Term sometimes used to describe the total number of funds in a performance survey.

Unlisted Securities

Stocks and shares not available for purchase or sale through the stock market.

Unquoted Investments

Stocks that are not listed on an exchange and so have no publicly stated price.

Venture Capital

Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange. A venture capitalist raises money from investors to invest in such opportunities. These investments are typically risky but potentially very profitable.

Notes

Notes