

# Gloucestershire Local Government Pension Fund

## Business Plan 2020-21

### **1. Introduction**

This Business Plan has been prepared in accordance with the Department for Communities & Local Government (CLG) best practice guidance for the governance of Pension Funds.

### **2. Background**

As at 31<sup>st</sup> March 2020, the Gloucestershire Local Government Pension Scheme (LGPS) Fund had 55,901 members consisting of 19,121 active, 20,173 deferred and 16,607 retired (pensioner/dependant) members. There are 204 active employer bodies in the Fund. The value of investment assets under management at 31<sup>st</sup> March 2020 was £2.24 billion.

The Pension Committee is responsible for the proper administration of all aspects of the Fund and has been delegated this authority by the County Council, as Administering Authority of the Fund.

### **3. Key Issues to be considered by the Pension Committee**

The Committee aims to ensure the maximising of investment returns over the long term within an acceptable level of risk, in the context of the Investment Strategy and the Fund's Risk Register. This includes reviewing the Fund Managers' performance as set out in the quarterly performance reports which are provided to the Committee on a quarterly basis, taking account of views and recommendations made by officers of the fund, including the Independent Advisor. The Committee also have to ensure that, over the long term, there are sufficient assets readily available to meet all Fund liabilities.

Another key investment issue to be considered by the Pension Committee is the Brunel Pension Partnership, which the Gloucestershire Fund has joined, which became fully operational as an FCA regulated company from 1 April 2018 in accordance with Government requirements.

During 2018/19 and 2019/20 a significant proportion of the funds investments were transferred to the Brunel Pension Partnership as each of the partnerships investment mandates became operational. As at the 31<sup>st</sup> March 2020, £1,280 million of the funds assets had been invested in new Brunel Portfolio's. The vast majority of the other assets of the Fund will be transitioned to the BPP during 2020/21.

The Committee recognises that investing responsibly over the long-term must include the consideration of not just financial data but also of the impact of the Fund's investments in terms of the environment, effects on broader society and corporate governance (ESG issues). The Fund, through Brunel, a market leader in this area, has appointed asset managers who must explicitly consider ESG issues as an integral part of their research

effort when investing the Fund's assets provided these considerations do not detrimentally impact financial returns or risk. Brunel and the Fund's investment managers have been asked to report to the Committee on the implementation of their stewardship and engagement activities for review on a regular basis. More detailed information on ESG activities can be found within the Investment Strategy Statement

There are also a number of key policy and strategy documents which the Local Government Pension Scheme (LGPS) Regulations require to be produced and these need to be kept under regular review. These can be accessed on the County Council's web site ([www.gloucestershire.gov.uk/pensionsinvestments](http://www.gloucestershire.gov.uk/pensionsinvestments)) and are listed below:

### ***Funding Strategy Statement***

This sets down the strategy for prudently meeting the Fund's future pension liabilities over the longer term, including the maintenance, as far as possible, of stable levels of employer contributions. It also identifies key risks and controls facing the Fund and includes details of employer contribution rates following the Fund's triennial valuation.

The Fund, working with its actuaries Hymans Robertson, undertook a review of the Funding Strategy Statement in the context of the final results of the 2019 valuation. This resulted in the Funding Strategy Statement being updated and consulted on with all of the employers within the Fund, before being formally agreed by the Pension Committee in February 2020.

### ***Investment Strategy Statement***

The Investment Strategy Statement has been prepared in accordance with the LGPS - Management & Investment of Funds Regulations, which came into force from 1 November 2016. These regulations introduced a prudential framework for investment decision making, and a Power of Direction for the Secretary of State to intervene in the investment function of an Administering Authority if deemed necessary, and also requires all funds to publish a new Investment Strategy Statement (ISS), which includes the Strategic Asset allocation by 1 April each year.

The Department for Communities and Local Government (DCLG) has also outlined new guidance on preparing and maintaining an Investment Strategy Statement which replaces the Statement of Investment Principles (SIP).

In order to comply with the guidance, administering authorities must take proper advice as part of the formulation of the Investment Strategy Statement and new Investment Strategy.

The Fund, working with the Independent Advisor to the Fund, undertook a review of the Strategic Asset allocation and the Investment Strategy Statement after the actuarial valuation had been completed during 2019/20, taking detailed advice from the Independent Advisor who is an investment specialist, in order to meet the requirements set out above.

The new Investment Strategy Statement and Strategic Asset Allocation which will be implemented in stages from 1 April 2020, was agreed by the Gloucestershire Pension Committee and has been placed on the Gloucestershire LGPS website.

### ***Communications Strategy***

This details how the Fund provides information and publicity about the Pension scheme to its existing members and their employers, as well as methods of promoting the Pension scheme to prospective members and their employers. It also identifies the format, frequency and method of distributing such information or publicity. This strategy will be reviewed during 2020/21 and will be agreed by the Gloucestershire Pension Committee in February 2021 and will be placed on the Gloucestershire LGPS website.

### ***Governance Compliance Statement***

The LGPS Regulations require Administering Authorities to prepare a written statement setting out their compliance with best practice governance principles. These best practice principles are grouped within eight categories and are listed within the statement. The Fund's compliance against each of these principles is also detailed, including evidence of compliance and, if appropriate, reasons if there is not full compliance. This will be reviewed during 2020/21 and will be agreed by the Pension Committee by February 2021.

### ***Governance Policy Statement***

This document details the arrangements put in place by the Administering Authority for the administration of the Pension scheme. These include the terms of reference of the Pension Committee and the appropriate governance arrangements which will reflect the eight categories of best practice principles as outlined in the Governance Compliance Statement. This will be reviewed during 2020/21 and will be agreed by the Pension Committee by the end of February 2021.

2019/20 was the financial year in which the full actuarial valuation of the fund was undertaken. This valuation, which was overseen by the Pension Committee, examined, in detail, the assets and liabilities of all of the employers within the Fund, and set the employers contribution rates covering the financial years 2020/21 to 2022/23. At the valuation date of 1 April 2019 the Gloucestershire Fund was 102% funded.

In addition to the above, during 2020/21, the Pension Committee will agree the annual report and annual accounts relating of the Fund covering the 2019/20 financial year. The Committee will also receive six monthly updates on the performance of the pension administration team, comparing actual performance against the agreed performance indicators set out later in this plan, and will consider the updated risk register at each meeting of the Committee.

#### **4. Key Targets & Major Milestones for the Pension Fund in 2020/21**

The major targets and milestones for 2020/21 are detailed below.

<u>Task</u>	<u>Measure of Performance</u>
Effectively transition remaining assets of the Fund to the new managers appointed by the Brunel Pension Partnership (BPP).	Meeting transition timetable and minimising transition costs.
Continue to input into the governance arrangements within the BPP including the Client Group and Oversight Board.	Effective service delivery by the BPP.
Ensure the collection of, and accounting for, £100m+ of employer and employee contributions from Fund employers.	Full collection and correct accounting within final accounts
Pension Fund Accounts completed by 30/06/20 for publication by 31/08/20	Meet specified time scales
Action any DCLG requirements re the future structure of the LGPS, including investments	Meet specified time scales
Accounts agreed by the Audit Committee on 30 <sup>th</sup> October 2020	No qualification of a/c's by Auditor
To administer pension benefits in accordance with the LGPS regulations, and the guidance set out by the Pension Regulator.	No material breaches that need to be reported to the Pension Regulator.
Issue the Annual Benefit Statements to all Fund Members by the end of August 2020	Meet specified time scales
2019/20 Annual Pension Fund Report produced and printed by 01/12/20.	Discussed at Annual Meeting
Update Pension Strategy Statements: <ul style="list-style-type: none"><li>• Funding Strategy Statement</li><li>• Investment Strategy Statement</li><li>• Communications Strategy</li><li>• Governance Policy and Compliance Statement</li></ul>	For agreement by Committee by: End February 2020 End February and September 2020 End November 2020 End February 2021
In house training for Committee and Board	Relevance of topics covered
To continue with regional training events in relation to the Brunel Pension Partnership	Provision of training events

## **5. Pension Fund Financial Estimates**

The costs of operating the Gloucestershire Pension Fund are borne by the Fund (and not by the County Council). The estimated costs for 2019/20 are shown below and are split between “Investments, Accounting & Financial Management” and “Scheme Administration”. For comparison purposes the previous year’s estimates are also shown.

“Investments, Accounting & Financial Management” includes the cost of Fund Managers, the Brunel Pension Partnership costs and other external costs, as well as the internal costs of producing and maintaining the Fund’s accounting records and statements.

“Scheme Administration” includes the internal costs of dealing with the Fund’s members and employers in relation to current/future benefits and compliance with scheme regulations, as well as external costs such as IT and actuarial costs in supporting Fund administration and the Triennial Valuation.

<b>ESTIMATES</b>	<b>2019/20</b>		<b>2020/21</b>	
	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>
<b>Investments, Accounting &amp; Financial Management</b>				
Staff costs	372		380	
Other internal costs	67		67	
External Fund Manager fees	5,800		6,346	
Other external costs	1,211		1,300	
<b>Sub Total of Investments Costs</b>		<b>7,450</b>		<b>8,093</b>
<b>Scheme Administration including Member Records &amp; Benefits</b>				
Staff costs	755		820	
Other internal costs	354		350	
External costs	584		580	
<b>Sub Total of Administration Costs</b>		<b>1,693</b>		<b>1,750</b>
<b>Total</b>		<b>9,143</b>		<b>9,843</b>

The main budget changes between 2019/20 and 2020/21 are:

### **Investment Costs**

The budget for External Fund Manager costs has been increased by £546,000 between 2019/20 and 2020/21 taking it to £6.3 million. This budget stood at £6.5 million in 2018/19, but was reduced to £5.8 million in 2019/20 to take account of forecast potential savings emanating from pooling. Now that a large number of portfolios have been created, and managers have been appointed, it is clear that the budget reduction made between 2018/19 and 2019/20 was too large.

The budget for the External Fund Manager costs for 2020/21 has now been based on the actual fees paid during 2019/20. This is felt to be more prudent budgeting, rather than trying to forecast savings, or indeed increased costs, emanating from new Brunel portfolio's which will become operational during 2020/21.

Once all of the new Brunel portfolio's are operational, and managers have been appointed, the actual fees will be known, thereby allowing for the calculation of the long term budget requirement.

As reported to the Pension Committee when the business case for the Brunel Pension Partnership was approved, the Gloucestershire Fund were paying the lowest pre pooling investment fees of all of the Funds that joined the partnership. Hence, although there will be fee savings for the vast majority of funds that joined the BPP, in the case of the Gloucestershire Fund these are likely to be marginal.

The situation is also complicated by the fact that savings forecasts were based on current investments and investment strategies in place in 2015, which have significantly changed since that time. In the case of the Gloucestershire Fund, the changes to the strategic asset allocation have resulted in investments in many new areas. This makes the calculation of accurate savings at individual portfolio level, very difficult indeed, since where Funds are moving into new mandates there are no actual investment fees to compare the new fees achieved by the BPP with.

Finally the fee's payable for some mandates have increased as a result of moving from passive to active managers, particularly in the case of emerging markets equities, and following the amendments to the strategic asset allocation which resulted in increased investments to alternatives, particularly private equity and infrastructure which are subject to higher fee rates, and the high alpha global equities mandate..

In summary, at an overall level, the budget for investment fees before the BPP became operational from an investment perspective stood at £6.5 million. The budget proposed for 2020/21, based on actual costs incurred during 2019/20 is £6.35 million. The final long terms investment fees budget requirement will be known once all portfolio's are live, and all manager fees are known.

### **Scheme Administration including Member Records & Benefits**

The budget for staff costs is increased by £65,000 (fye). The vast majority of this increase is to provide funding to facilitate increased resource for the Pension Administration team.

As has been previously reported to the Pension Committee and Pension Board, the last few years have seen unprecedented change in the level of legislative and statutory responsibilities imposed on the administration of the LGPS. The introduction of the new CARE scheme, and increased record keeping and reporting requirements from the Pension's Regulator, being the most notable.

The increased complexity not only affects the day-to-day administration of the scheme, but has also impacted substantially on the level of technical support the pensions section is required to provide to active employee members of the fund in terms of options available to them, and the growing number of employers in terms of understanding the legislation.

In line with other LGPS funds, Gloucestershire has already commenced increasing staff to cope the additional demands, but due the high level of training and support required for new recruits, has approached this on a “staged” basis to ensure the section was able to cope with the additional training pressures, whilst still providing a good level of customer service.

The management team still believe that additional budget provision is required in order to prevent a significant drop in the performance of the administration service, in the context the Gloucestershire Pension Administration team is still significantly smaller than the teams in the vast majority of other funds within the BPP.

## **6 Administrative/Training Targets for the Committee**

Members to attend at least 60% of Pension Committee meetings each year.

The Pension Committee have agreed individuals should carry out a minimum of 1 days training each year via any combination of the following: attendance on regional briefings on the Brunel Pension Partnership, attendance on internal training events and external courses/conferences/seminars; reading briefing notes/policy documents; reading and discussing reports at Pension Committee.

Committee minutes to be issued within two months of a meeting

Committee papers to be sent out 5 working days before a meeting.

To regularly review and agree changes to strategy/policy documents. All strategy/policy documents will be considered by Committee at least every three years, even if no changes are recommended.

## **7. Administrative Targets for the Pension Fund**

<b>Service Standards – Processing tasks within internal targets</b>	<b>Target Achievement %</b>
Issue estimates to employees within 15 days	90%
Process retirements and lump sums within 15 days	90%
Pay refunds within 15 days	90%
Pay death grants within 8 days	90%
Issue Annual Benefits Statements within the statutory deadline	100%
Pay Transfers Out” within 15 days	90%
Pension Fund Accounts produced by statutory deadline	30/6/2020
Annual report produced by statutory deadline	01/12/2020

The Pension Committee and Pension Board receive regular reports on the actual achievement against these performance targets.

### **Recommendation**

That the Business Plan for 2020/21 is approved.

### **Contact Officer**

Paul Blacker – Director of Finance.