

Agenda Item 9

**Pension Committee
23 September 2022**

Gloucestershire Pension Fund update – Part 1 Quarter ending 30 June 2022

Report of the Head of Pensions

Summary

This report summarises the Fund’s funding position, market value, asset allocation, investment performance for the quarter ending 30 June 2022.

Administering authorities, under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 must keep under review the performance of their investment managers. This report fulfils this requirement.

This report also summarises the Funds administration performance and activities up to the same period.

Funding position

The below information is to provide an update on the funding position as at 30 June 2022 and how these compare to the position at the last formal valuation of the Fund (31 March 2019). The results consider the Fund as a whole and not the positions of individual employers (which may vary materially). Further details on the methodology, data, reliance’s and limitations of the results is contained in Appendix 1.

Please note that the results below are not based on the results of the 2022 formal valuation.

Executive summary

Reported funding position	31 March 2019	30 June 2022
Assets (£m)	2,379	2,924
Past service liabilities (£m)	2,338	2,277
Surplus/(Deficit) (£m)	41	647
Funding level	102%	128%
Assumed future investment return (% p.a.)	4.2%	4.9%
Likelihood of achieving this return*	70%	75%
Fully funded target	31 March 2019	30 June 2022
Funding target	100%	100%
Future investment return required to be 100% funded (% p.a.)	4.1%	3.3%
Likelihood of achieving this return*	71%	89%

* likelihood of the Fund’s portfolio achieving these returns over the next 20 years

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Past service funding position: The Fund has a surplus of £647m as at 30 June 2022 compared to a surplus of £41m at 31 March 2019. This is up from £415m as at 31 March 2022. The improvement since 2019 has been largely driven by strong investment performance.

Investment outlook: Prudent expectations of future investment returns have risen to 4.9% p.a. at 30 June 2022 based on a 75% likelihood of being achieved (at 31 March 2019, the equivalent return was 4.2% p.a. based on a 70% likelihood of being achieved).

Fully funded required return:

The likelihood of achieving the future investment returns needed to have sufficient assets to pay past service benefits has increased since the last valuation (there is now a 89% chance of achieving the returns needed).

Therefore, **the Fund is now more likely to have sufficient assets to meet earned benefit payments than at the valuation in 2019.** The detailed funding report, prepared by Hymans, is attached at Appendix 1.

Fund Investment Performance

Over the quarter to 30 June 2022, the Fund's total market value decreased by £181.909m, to £2,924.184m.

Over the quarter, total Fund assets produced a negative return of **-5.9%**, compared to a target of **-5.4%**, underperforming the strategic benchmark by 0.5%.

Performance over the 3 years to 30 June 2022 was 4.7% annualised slightly behind the benchmark by 0.6%. A detailed investment performance report is attached as Appendix 2 to this report.

Investment Strategy and Activities

During the Quarter the following investment activity took place:

- During the quarter there has been a number of calls into the alternative asset classes of circa £20m in GBP terms and circa £18m in GBP terms into property, resulting in the Fund moving more towards its target allocation to alternatives and property.

The current Strategic Asset Allocation is as follows:

Asset Class	Target Allocation %	Range +/- %	Allocation as at 30 June 2022 %	Variation from Target %
Equities	55.0	3.0	56.1	+1.1
Fixed Interest	22.0	2.0	17.8	-4.2
Alternatives*	23.0	2.0	26.1	+3.1

A detailed Strategic Asset Allocation report is attached as Appendix 3 to this report.

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Responsible Investment update

On 1 September, the UK Government launched their [consultation](#) on Governance and Reporting of climate risks. The proposals apply to LGPS funds in England and Wales with regulations expected to come into force by April 2023.

As widely expected, the consultation follows the Taskforce for Climate-related Financial Disclosures (TCFD) framework and will require Administering Authorities to consider and report against the four key areas of governance, strategy, risk management, and metrics and targets.

The aim of this framework is to help the LGPS demonstrate how the consideration of climate change risks and opportunities are integrated into each Authority's entire decision-making process. The proposals under the consultation are similar to the new requirements that came into force for private sector pension funds in October 2021 but include some key differences in order to reflect the needs of the LGPS, the desire to have consistency in data and reporting, and to try to positively impact the ability to accurately measure and report climate risk and emissions data.

Key requirements proposed in the consultation

- Establish and maintain a Governance approach for oversight of climate risks and opportunities.
- Assess the impact of climate-related risks and opportunities on funding and investment strategies.
- Carry out scenario analysis reflecting different temperature pathway alignments (one being Paris aligned).
- Establish and maintain processes for identifying and managing climate-related risks and opportunities.
- Report on a minimum of four prescribed climate metrics which need to be measured and disclosed annually.
- Set a (non-binding) target in relation to one metric, chosen by the Authority.
- As part of ongoing disclosure requirements Authorities will need to publish an annual climate risk report with the Scheme Advisory Board also preparing an annual report, linking to individual reports and aggregate figures for the prescribed metrics.
- Other requirements including taking proper advice and having the knowledge and skills required.

The consultation opened on 1 September and has a closing date of 24 November 2022. The relevant regulations are expected to be in force by April 2023 with our first report due by December 2024 covering the 2023/24 scheme year.

We will be holding a workshop/training day for Committee at the end of October which will include a session on the consultation. This will enable us to gather the views/consensus of Committee in formulating the Funds response to the consultation ahead of the 24 November 2022 closing date. Further details of the workshop/training day will follow in due course.

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Fund Administration

The focus of the Administration Team over the quarter to the 30 June has been the collation and validation of the membership data for the year ending March 2022. With this being a triennial valuation year the timetable for validation of the data received by the c200 Employers and after validation checks and any required rectifications, after dialogue with the Employer, onward delivery to the Actuary meant a redeployment of the team resources to ensure this was met.

The accuracy of the data is paramount in the valuation process, so the team have also undertaken additional checks on the 3 year data as part of our internal valuation process to ensure that our data is as accurate as possible, as this will have a direct impact on the required contribution rates that the Actuary will set for the Employers as part of the process.

Further details on the valuation process are contained in the later agenda item, but I can confirm that the membership data was uploaded to Hymans on 20 July 2022, slightly ahead of timetable. Hymans have stated that accurate results depend on good data quality. Based on the DataPortal's validations, Hymans believe the membership data we have submitted is fit for purpose for the initial results. The data will be further reviewed again as they prepare employer-level results at the next valuation stage.

Annual Benefit Statements are required to be issued to all active and deferred members by 31 August. Again this is a major one off exercise each year that requires some redeployment of resources to ensure delivery. I am pleased to confirm that we have met this statutory deadline and the benefit statements were actually issued slightly ahead of the deadline as this coincided with a postal dispute so we wanted to ensure delivery by the 31 August.

As is always the case the receipt of the ABS does cause a substantial increase in telephone and email enquiries from the members in the initial 2 weeks of receipt of the statements. This normally also sees a increase in retirement estimate requests at the same time.

The team are now implementing agile working, as per GCC guidelines, which will see greater flexibility across the team, but will result in a major change to the overall teams working behaviours. The main objective of the Fund, to pay the right benefits, to the right person at the right time. The current performance indicators remain under challenge due to the volume of casework, which have returned to 2019/20 levels in most areas and new working practises (i.e. agile working) that remain in place. We have had to embed new Transfer Out requirements, which now require more due diligence checks to be undertaken by the team before payment can be made. We are addressing this through the increasing the resources within the team as set out below.

The focus remains for the team to provide an equal service to all members of the Fund, which is demonstrated by the average days taken in all cases v the average day taken in cases that exceed the target, and I can advise that all payments are being made within statutory timeframes in accordance with the regulations.

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Staffing update

I am pleased to advise that further to the appointments of Zoe Bowen-Viner and Chris Payne to the roles of Group Pension Leaders with effect from 1 June.

The recruitment for Lead Pensions Officers (1 new post and 2 resulting from Zoe and Chris appointments) has been concluded and I am pleased to advise that Lauren Fielding, Zoe Broughton and Jessica Webley have all been appointed to the roles of Lead Pensions Officers with effect from 1 July.

As a result of the above appointments we now have 6 Pension Officer vacancies (2 new posts, 3 resulting from Lauren, Zoe and Jessica's appointment, plus a vacancy from the resignation of Sam Woodridge).

The Pensions Officer role has been advertised externally and we received 6 applications, of which 4 proceeded to interview. We subsequently had 1 withdrawal and from the 3 interviews we have successfully appointed 2 new members of the team, Shaun Comer and Stacy Ridler, who will join the team on 3 October and 10 October respectively.

We have readvertised the Pension Officer role again with a view to recruiting to the 4 remaining vacancies. The application for this role closes on Wednesday 14 September, after which shortlisting and interviews will be arranged.

As previously advised the Funds Pension Administration Manager, Alan Marshall applied for and has been granted flexible retirement, which will come into effect from 1 November 2022. With the impending projects such as McCloud and Pensions Dashboard retaining Alan's vast knowledge within the Fund is key as well as developing succession planning and reducing the key person risk that currently exists. The recruitment process for a new Pension Administration Manager is currently underway and a verbal update will be provided at the meeting.

Finally, I am also pleased to advise that the recruitment of the Pension Investment & Accounting Manager post has been concluded and I am pleased to advise that Nigel Gabb, who will be known to many members of the Committee will move into his role on 14 November.

Recruitment remains a challenging area across the entire LGPS and there are a vast number of Funds actively recruiting at this time in both administration and investment arenas and as the volume of membership continues to increase, as do the complexities of people's circumstances, therefore, to ensure that we are able to deliver the ongoing level of service required we will need to undertake a review of all our processes to see how we can improve them either with efficiencies or with the implementation of IT systems. Alongside this, we will also be undertaking a review of the administration strategy and the performance indicators, that were previously reviewed in 2017 to see if they remain appropriate, this activity is built part of 2022/23 business plan alongside other key projects such as the Pensions Dashboard and McCloud.

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The onboarding on new members of the team, either existing team members in new roles or completely new members into the team, can create an additional burden onto existing resources, therefore, we have taken the following steps to help mitigate this impact.

1. Hymans have been retained to provide a help desk facility for senior members of the team to seek technical guidance on complex case work, thereby alleviating the continual burden on internal knowledgeable persons and creating more resilience.
2. Hymans will be providing a programme of high-level administrator training sessions to new and existing team member, via multiple streams (such as in person and online) on the key elements that go into administering the scheme. This will help in delivering a comprehensive training plan to upskill the new role holders as quickly and efficiently as possible. The rest of the training will be delivered by existing team members in a face to face mentoring programme.
3. We have currently offered voluntary overtime to the existing team, of which 3 members have taken up the offer, and we are monitoring this to ensure it does not have a detrimental impact on the individual.

Further recruitment of the additional resources will be undertaken through the remainder of the Fund year to ensure we balance the requirements of delivery and staff onboarding and upskilling, which in the nature of the work that is undertaken can take up to 3 to 6 months for the staff member to become effective. In the meantime, we as a team remain focussed on paying the right benefits, to the right people at the right time, adapting where possible and ensuring we strive to deliver an equal service to all members.

Business Plan 2022/23

The following is a summary, together with commentary of the amber key tasks from the work plan agreed as part of the business plan for 2022/23.

A detailed report against all items is attached as Appendix 5 to this report

Governance

Task	2021/22	2022/23			
	Q4	Q1	Q2	Q3	Q4
Annual review against The Pensions Regulators Code of Practise	✓ - on the 2022/23 business plan				
Approval of audited Fund accounts			✓ - draft accounts on agenda. Audit ongoing		

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Core projects tracking from 2022/23 business plan

Below is a brief tracking of the core projects identified in the 2022/23 business case. Further updates are provided in Appendix 5 to this report

1) 2022 Actuarial valuation and associated tasks	On track and operating to schedule	
2) Review pensions administration system contract	On schedule – project planning in phase	
3) Pensions Dashboard (including a Data Improvement Strategy)	Scheduled Q2/Q3 2022/23	
4) McCloud	Awaiting guidance	

Governance Review

A detailed report on the tasks from the work plan agreed by Committee in September 2021 is attached as Appendix 6 to this report.

The task on the update of the Funds Governance Compliance Statement and Policy, together with the review of the scheme of delegation is contained as a separate agenda item to this meeting.

With the revised timeline agreed by Committee at its previous meeting on certain tasks there are currently no amber items and the workplan is tracking to schedule

LGPS National Knowledge Assessment

In accordance with the Funds approved training policy and training plan we will be partaking in the the 2022 National Knowledge Assessment (NKA), the assessment will launch on Wednesday 28 September.

The assessment will provide the Fund with a benchmark of current knowledge levels against other LGPS funds' Committee and Boards and will be tracked against the previous knowledge and skills assessment that we undertook in 2021 to see if the training opportunities that has been provided has been effective.

The assessment will take 15-20 minutes to complete and will be an important step in helping us develop the next training plan for the Fund. Further details will follow via email in due course.

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Recommendation

That the Committee note the funding, investment position and governance activities as at 30 June 2022.

Contact Officer

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