

Agenda Item 5

**Pension Board
18 January 2023**

Gloucestershire Pension Fund update – Part 1 Quarter ending 30 September 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 September 2022.

The information contained in this report was taken to the Pensions Committee on 8 December 2022 and fulfils the requirement for 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.

Funding position

The below information is to provide an update on the funding position at 30 September 2022.

Reported funding position	31 March 2022	30 September 2022
Assets (£m)	3,111	2,887
Past service liabilities (£m)	2,826	2,021
Surplus/(Deficit) (£m)	285	866
Funding level	110%	143%
Assumed future investment return (% p.a.)	4.2%	6.1%
Likelihood of achieving this return*	75%	75%
Fully funded target	31 March 2022	30 September 2022
Funding target	100%	100%
Future investment return required to be 100% funded (% p.a.)	3.7%	4.1%
Likelihood of achieving this return*	82%	91%

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

Agenda Item 5

This funding assessment has been carried out at an effective date of 30 September 2022, at which time significant volatility in investment markets was being observed. The effect of this market volatility may have been to distort the funding position. Specifically, market volatility means that asset and liability values can vary significantly between successive days. As a result of this volatility, the actual funding position today, and at the next reporting date, may differ significantly to that shown in these results.

The assumptions underlying this funding assessment have been set based on the proposed Funding Strategy Statement, updated for market conditions on 30 September 2022. No adjustment to the assumptions has been made in response to the significant market volatility.

The value of the liabilities on 30 September 2022 do not recognise the expected 2023 Pension Increase Order of 10.1%. The 2023 Pension Increase order will be set by Government and is typically set with reference to the change in CPI over the 12 months to the previous September. This was confirmed to be 10.1% and we await confirmation from Government that a 10.1% Pension Increase order will apply in 2023.

If the liabilities on 30 September 2022 included allowance for a 2023 Pension Increase Order of 10.1%, this would lead to a c5-6% increase in the value of the liabilities.

This also represents a whole fund figure and the funding positions of individual employers will vary.

Fund Investment Performance

Over the quarter to 30 September 2022, the Fund's total market value decreased by £36.7m, to £2,887.5m.

Over the quarter, total Fund assets produced a negative return of **-1.3%**, compared to a target of **-2.0%**, outperforming the strategic benchmark by 0.7%.

Performance over the 3 years to 30 September 2022 was 3.6% annualised which was on benchmark. The new look version of the performance report is attached as Appendix 1 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 £28m in GBP terms and circa £9m in GBP terms into property, resulting in the Fund moving more towards its target allocation to alternatives and property.

Agenda Item 5

The current Strategic Asset Allocation is as follows:

Asset Class	Target Allocation %	Range +/- %	Allocation as at 30 September 2022 %	Variation from Target %
Equities	55.0	3.0	55.9	+0.9
Fixed Interest	22.0	2.0	16.7	-5.3
Alternatives*	23.0	2.0	27.4	+4.4

A detailed Strategic Asset Allocation report is attached as Appendix 2 to this report.

Responsible Investment update

On 1 September, the UK Government launched their [consultation](#) on Governance and Reporting of climate risks. The consultation had 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.

The formal response, which is provided at appendix 3 to this report, from the Pensions Committee was submitted by the Chair of the Committee after a period of consultation with all Committee members.

The Fund, on 15 November, held a workshop day, which included members of the Committee and the Pensions Board. The focus for the day was to debate the importance of responsible investment (RI) set within the context of the statutory responsibilities of the Pension Committee to protect the interest of the Pension Fund members and to understand how RI can be implemented within the context of investment pooling.

The outcomes from the workshop will assist in the further defining of the investment and RI beliefs of the Committee, which will feed into an RI policy and future updates to the Investment Strategy Statement and Communications Policy of the Fund, The output activities will be incorporated into the future Business Plan of the Fund, which is subject to approval of the Committee.

Fund Administration

The focus of the Administration Team over the majority of the quarter to 30 September has been the finalisation of the validation of the membership data for the year ending March 2022. The accuracy of the data is paramount in the valuation process and to produce the Annual Benefit Statements (ABS).

Annual Benefit Statements were issued slightly ahead of the statutory deadline as this coincided with a postal dispute so we wanted to ensure delivery by the 31 August.

Agenda Item 5

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 have now fully 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 volume of casework continues in increase. 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.

The current performance indicators, which are attached as appendix 4 to this report have improved in the key deliverable areas since the previous quarter, which reflects that the activity of year end and ABS has been completed.

At the Committee meeting in September 2022, Committee expressed concern that the KPIs had not been achieved in the majority of the indicators for a long period and requested that the Head of Pensions undertake a review in this area.

As part of the governance work plan, agreed by Committee in June 2021, one of the activities to be undertaken was a review of the Funds Administration Strategy, which also includes the reportable KPIs.

In response to the concerns raised by Committee, the review of the administration strategy and in particular the reportable KPIs, has now been escalated, and together with AON, who are assisting in the delivery of the governance workplan, a fundamental review of the administration strategy has been commenced. I attach a scope of the review that will be undertaken as appendix 5 to this report. Any other areas identified and agreed by Committee can be included in the scope, if required.

The scope of the work will cover the following areas:

- Processes
- Performance standards
- KPIs
- Resources and structure

Attached as appendix 5 to this report is the scope of the activity that will be undertaken as part of the review and contains an indicative timetable, that schedules delivery of the outcome report for the June 2023 meeting.

Agenda Item 5

Staffing update

I am pleased to advise that a further 4 Pensions Officers have now joined the team since October 2022.

Unfortunately, we have also received a resignation from an existing Pensions Officer and left us at the end of November.

We have readvertised again with a view to recruiting to the 3 remaining Pension Officer vacancies. The applications for this closed on 16 December, with interviews scheduled for January 2023.

As previously advised the Funds Pension Administration Manager, has been granted flexible retirement, which came into effect from 1 November 2022.

The recruitment of a replacement Pensions Administration Manager has been undertaken and it has been anticipated that they will commence on 1 March 2023. Once everything has been finalised, we will circulate a short biography of the successful candidate to the Board.

The Pension Investment & Accounting manager commenced in November 2022.

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 peoples 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 previous 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.

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

Agenda Item 5

- 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 6 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 provided. Audit ongoing	✓ - Audit opinion on agenda.	

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 6 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	

Agenda Item 5

3) Pensions Dashboard (including a Data Improvement Strategy)	Commenced and on track with initial data check	
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 7 to this report.

With the revised timeline agreed by Committee at its meeting in June 2022 on certain tasks there are currently no amber items and the workplan is tracking to schedule.

The following activities have commenced in the previous quarter as a result of the workshop held in November 2022 and in response to the Committees concerns raised in relation to the current performance indicators.

Action	Reason	Timescales	Current action/comment
Review the Fund's Communications Policy	We understand that a review was due to be undertaken in 2019/20 but this did not take place	Commenced	Initial work was commenced with Committee/Board workshop event held in November 2022
Review the Fund's Administration Strategy	Last reviewed in 2017	Commenced	Review has commenced with scope looking at processes/resources/IT and KPI's
Review the Fund's Investment Strategy Statement	Our report suggested some potential enhancements to the current policy in relation to Responsible Investment.	As per Fund's business plan	SAA review undertaken and ISS on agenda for approval in December 2022. Development of Responsible Investment Policy commenced with workshop event held in November 2022.

LGPS National Knowledge Assessment

In accordance with the Funds approved training policy and training plan we partook in the the 2022 National Knowledge Assessment (NKA). Five Committee members and five Board members completed the assessment, which has now closed and we are awaiting the results. The results will be brought back to the next available Committee and Board meetings.

The assessment will provide the Fund with a benchmark of current knowledge levels against other LGPS funds' Committee and Boards and will can track against the previous knowledge

Agenda Item 5

and skills assessment that was undertaken in 2021 to see if the training opportunities that has been provided has been effective. The results will also be used to inform the future training plan for Committee and Board members.

Pension Fund Audit 2021/22

At its meeting in July 2022, the Board noted the Audit Plan, in relation to the audit to be undertaken by Grant Thornton on the Fund for 2021/22. This was followed by the draft Statement of Accounts in relation to the Fund which were provided to the Board at its October 2022 meeting.

I am now please to attach, as appendix 8, the Audit Findings Report (AFR) received from Grant Thornton, in respect of the audit on the Fund for 2021/22.

Headlines

Grant Thorntons audit work was completed remotely during July - October. Grant Thornton identified two adjustments to the financial statements that have resulted in a £15.4m adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix C of the AFR. Grant Thornton have also raised recommendations for management as a result of their audit work in Appendix A of the AFR. Grant Thorntons follow up of recommendations from the prior year's audit are detailed in Appendix B of the AFR.

Conclusion

Grant Thorntons have substantially completed the audit of the Funds financial statements and subject to outstanding queries being resolved, they anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 30 November 2022, as detailed in Appendix E of the AFR. The outstanding items include:

- receipt of management representation letter;
- completion of one sample test for Benefits paid;
- receipt and review of the final Annual Report; and
- review of the final set of financial statements.

Management have provided responses to the recommendations raised in the AFR at appendix A, and, as appropriate to the audit adjustments detailed in Appendix C of the AFR.

Agenda Item 5

Pension Fund Annual Report 2021/22

Summary

The Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare a Pension Fund Annual Report and specify what it should contain. Principally, the regulations and government guidance require that the Annual Report should include reference to the following documents:

- the management and financial performance during the year;
- the Fund's investment policy and a review of the performance of the Fund's assets;
- administration arrangements;
- a statement by the Funds Actuary of the level of funding disclosed by the most recent valuation and the assets and liabilities of the Fund;
- the Fund Accounts and Net Asset Statement and supporting notes and disclosures in accordance with proper practices;
- progress on investment pooling including the costs and savings resulting from the initiative;
- the current approved versions of:
 - Governance Compliance & Policy Statements
 - Funding Strategy Statement;
 - Investment Strategy Statement;
 - Communications Strategy

Please note that the Funds Annual Report can only be published once the Council's Statement of Accounts has been approved, as the Pension Fund accounts form part of the Council's Statement of Accounts.

The regulations also require the Annual Report to be published on or before 1st December following the year end. It is anticipated that the Councils Statement of Accounts will not be approved before the 1st December, therefore, as with previous years, the Fund will publish the Annual Report in draft on 1st December, but will make reference to the completion of the audit of the Pension Fund accounts. Once the Councils Statement of Accounts has been approved the final Annual Report will be republished.

Due to the size of the Pension Fund Annual Report for 2021/22, the draft report has been issued to the Board via separate email and will not form part of their agenda packs.

Pensions Committee review

The Committee noted the funding, investment performance, including the Audit Finding report and the draft Pension Fund Annual Report 2021/22.

Agenda Item 5

Recommendation

The Board is recommended to note the position of the Fund as at 30 September 2022 and the governance undertaken and subsequent recommendations agreed by the Pensions Committee at their meeting held on 8 December 2022.

Contact Officer

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